THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 60 No. 3 May 22, 1937

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CONTENTS

C. G. Wyckoff, President and Treasurer. E. Kenneth Burger, Vice-President and Managing Editor. Ralph J. Schoonmaker, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe it to be accurate. Single copies on newsstands in U. S. and Canada, 35 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O., New York, N. Y., Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE—$7.50 a year in advance in the United States and its possessions, Canada and Pan-American. Foreign, $8.50. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, E. C. 4, England.

Cable Address—Tickerpub.

With The Editors

Be Wary of Dependent Companies

No one likes the word "dependence." Attempting to escape it, men spend years in grinding labor. It smacks of servility: it connotes a lack of freedom. Above all, to whatever applied it is a word which signifies weakness. The dependent relative is no more to be pitied than the dependent company. Both are in a position where they can be exploited and, if harsh treatment is sometimes withheld, it is only because a sense of fairness still exists in an unfair world.

There are two ways in which a company can be dependent. It can depend upon one or a few big customers taking practically all its output. Or, a company can be dependent by virtue of concentrated stock control. Let us suppose that little company "A" specializes in making a part for the product of big company "B." Business is good and little company "A" reports large earnings on its common stock—larger per-share earnings perhaps than are shown by big company "B." When the annual contract comes up for renewal it is only human nature for "B" to force a lower price and point to "A's" earnings in justification.

A company whose stock is controlled by another is in a similarly vulnerable position. If there is a customer relationship as well as a stock relationship in the situation, it is the easiest thing in the world to syphon earnings from controlled to controller. Even if there is no customer relationship there are ways of reducing the profits of the controlled for the benefit of those who do the controlling.

We know of many investors who rejoice in a minority position, feeling that there will come a time when recalcitrancy on their part will be made to pay handsomely. There have been, of course, countless cases in the past where matters have worked out in just this way. To this we can only repeat that a minority situation, particularly when it is a large minority, is inherently dangerous for the investor. Doubly dangerous is it when there is also the factor of customer dependence. We repeat that not every affiliate is deprived of its just earnings, nor is every company with a few large customers forced to quote uneconomic prices. It will be remembered, for example, that the du Pont company permitted Commercial Solvents to do pretty well when the big company was practically the only customer the little one had. Nevertheless, this does not alter the fact that dependence is weakness and the investor should be careful accordingly.

IN THE NEXT ISSUE

The Outlook for Business Profits—

And the Effect on Security Prices

Has the Era of Lower Investment Return Arrived?

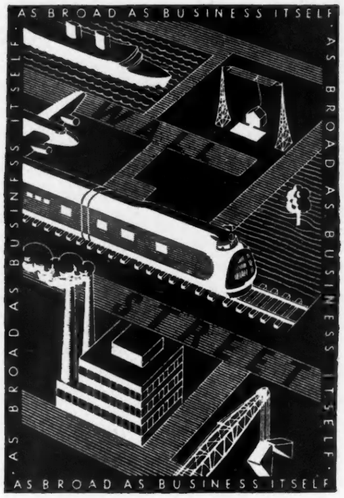
BY JOHN D. C. WELDON

Gendreau

Since March, 1933, more than 8,400,000 persons from the ranks of the unemployed have obtained jobs. During the past year 1,600,000 have gone back to work. Yet the relief burden remains heavy, unskilled workers are loath to relinquish soft berths on W P A and in some industries a shortage of skilled help impends. See Shortage of Labor Handicaps Industry on Page 157.

THE MAGAZINE OF WALL STREET

E. KENNETH BURGER, *Managing Editor* : C. G. WYCKOFF, *Publisher* : THEODORE M. KNAPPEN, LAURENCE STERN, *Associate Editors*



The Trend of Events

PROLONGING A STALEMATE . . . It is only a little more than six months ago that President Roosevelt was re-elected in a landslide which virtually blotted out the Republican opposition. If, on the day the election returns came in, some prophet had forecast that the Democratic Party would soon be split wide open on an issue presented by the President, and that Congress would drone through four months of dreary stalemate without adopting a single piece of vital legislation, that person would have been put out of mind as crazy. Yet the facts speak for themselves. Mr. Roosevelt has made his own opposition within his own party—first by advancing his Supreme Court "packing" plan without having debated the issue in his campaign and without having consulted his Congressional leaders; and, second, by resorting to the patronage whip in seeking to force his proposal through an obviously reluctant Senate.

The issue plainly has become a bigger one than White House domination of the Supreme Court. Involved also is the question of whether the President is to dominate the Senate. Much as the American people like and admire Mr. Roosevelt, there is no reason whatever to assume that they voted last November for one-man government at Washington. The strength of the Democratic opposition in Congress is self-evident proof that the President's Court plan has met with an adverse public reaction, for members of Congress may be presumed to know well the wishes of their constituents.

There is no economic or social crisis in this country to justify the short-cut through the Constitution that the President demands. The only crisis that exists is the governmental crisis precipitated by Mr. Roosevelt. Prolongation of the present stalemate would be deplorable from every point of view. The President would regain much good will by dropping a mistaken venture and taking his case to the people via the established route of Constitutional amendment. Should he succeed in forcing through any arbitrary enlargement of the Supreme Court, whether by six Justices or two, he will find it to be a costly victory.

WE BUY MORE, SELL LESS . . . This country used to rejoice in a large favorable balance of foreign trade, meaning a surplus of merchandise exports over imports. How far the position has been reversed is indicated by the fact that in the first quarter of this year our imports exceeded exports by $114,000,000. Continuation of the trend of March would produce a 1937 import balance of more than $500,000,000.

Such a result does not check with the theory that the dollar is undervalued in relation to other currencies, for under that theory exports would be stimulated and imports restricted. As a matter of fact, the trade figures prove that internal business conditions and various special factors have more effect on the international move-

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Twenty-Nine Years of Service"* — 1937

ment of goods than currency changes. For example, heavy first quarter imports of rubber and tin directly reflect business demand in this country. On the other hand, exports of agricultural products have been abnormally low for the simple reason that we have not had the former surpluses to sell abroad.

Moreover, it is by no means certain that first quarter trends in foreign trade will continue through the year. On a seasonal basis, our exports are usually heaviest in the third and fourth quarters; and this year it is likely that we will again have a wheat surplus to market. Again, the prices of the raw materials that figure most importantly in our imports have had a severe reaction and appear unlikely any time soon to regain recent peaks. Since trade statistics are expressed in dollars, lower prices for many foreign raw materials would mean a correspondingly reduced import balance.

LABOR TROUBLES CONTINUE . . . If anyone at Washington really believed that the Supreme Court decision upholding the Wagner Act would end labor strife in this country, he now knows better. Strikes continue, even in plants of companies that have signed agreements with the C. I. O. In General Motors plants to date there have been forty such temporary stoppages since that organization and the major motor union came to terms.

It goes without saying that business men will abide by the law of the land. The same cannot be said for labor. As this is written, the C. I. O. steel union has called a strike against Jones & Laughlin, insisting that the company sign a contract with it. Adhering to the Wagner Act, the company takes the position that it will accord sole collective bargaining rights to any majority of its workers, as determined by secret election under the machinery of the National Labor Board.

The C. I. O., however, has shown clearly that it intends to resort to the Wagner Act only when such action suits its purpose—that is, when it is confident that its members constitute an actual majority. Otherwise, it insists that its own terms be accepted and does not hesitate to resort to the strike weapon.

Business can take much comfort in the thought that in abiding by the Wagner Act it no longer has anything to lose before the court of public opinion. On the other side, the C. I. O. is playing with fire in ignoring the very law that its leaders clamored for, and in insisting on its own domination regardless of whether it has a majority. Public opinion will not long stand for a "heads I win, tails you lose" policy on the part of the followers of Mr. Lewis.

TRADE SWINGS UP AGAIN . . . Retail trade has shown a brisk rise recently, after lagging during April. This is encouraging in itself but is even more encouraging because of the reason behind larger volume. In April, when everybody was talking about a run-away price rise and the handlers of goods all the way from manufacturers to merchants were adding to their prices just a bit more than was necessary, retailers thought they could defer clearance sales. Taking note of disappointing April results, they changed their minds.

Clearance sales at lower prices have been largely responsible for returning business. The lesson will prove valuable. Indeed, the collapse of the commodity boom, although it will involve some readjustments, has removed from the business scene what a few weeks ago was its greatest element of danger. Had it continued, business would have been heading for an inevitable nosedive. As it is, autumn retail prices will probably be substantially higher than a year ago, but not as high as manufacturers, wholesalers and retailers were thinking not long ago. All down the line, there has been a healthy return to a realistic price policy. This does not mean that higher costs of labor and raw materials can be ignored but it does mean that a crimp has been put in price-raising over and above what is made absolutely necessary by valid cost increases. A continuation of the present level of retail trade would steadily work down such inventories as are excessive and form a solid foundation for renewed advance in industrial production after minor summer recession.

PROXIES AND S E C . . . If reported plans mature, stockholders may look to the Securities Exchange Commission for more complete information and perhaps even guidance in enabling them to endorse or reject any company proposal requiring their vote. The existing rules covering solicitation of stockholders' proxies were devised by the S E C under the Securities Act of 1934, and provide that a copy of the proxy, together with information relating to the proposal to be voted upon, must be filed with both the S E C and the Exchange on which the shares are listed. The idea was to enable stockholders to have full knowledge of the matters for which their vote was being sought and also to make stockholders' lists available to minority groups should they also desire to enlist proxy support. In practice it has been found that insufficient time was given the S E C to enable them to properly examine proxy information and take such action as might be necessary. Now, according to reports, the S E C is contemplating a change in the present rules, requiring the filing of proxies and information with the commission and Exchange for a period prior to the time such proxies are sent to stockholders. This change would enable either or both of these bodies to act in any way which they might feel would be required in the interests of stockholders. Most companies have abided fully by the spirit and letter of the present rules but apparently there have been enough cases of deficiencies to make the proposed action by the S E C necessary, as well as desirable.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 139. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, May 17, 1937.

Market Turn is at Hand

An attractive buying area has been reached in the intermediate reaction, but broad accumulation of stocks should await establishment of a firm plateau of resistance even though this will involve paying a bit more than bottom prices.

BY A. T. MILLER

A FOURTH sinking spell, marked by sharp decline in numerous industrials, has moderately extended the intermediate market correction of the past five weeks. As this analysis is written, the daily Dow-Jones industrial average has established a new low for the year at a level just 2.67 points under the previous low reached on April 28. The Dow-Jones rail average, however, has not yet broken under the April 28 figure.

The total decline from the year's high now amounts to approximately 14 per cent in the Dow-Jones industrial average and to some 19 per cent in THE MAGAZINE OF WALL STREET's composite index of 330 stocks. The scope of the readjustment that has been experienced can be even better visualized by citation of the fact that about 52 per cent of the entire advance since early May, 1936, has been cancelled. The present average level is only 6 per cent higher than the best figure reached in the spring of last year. Meanwhile, we have seen a tremendous broadening of recovery in the durable goods industries and aggregate corporation profits have increased by more than 50 per cent.

Not even the most pessimistic bear that can be found in Wall Street believes that either the recovery cycle or the bull market is over. It is conceded that the recent movement constitutes merely an intermediate reaction, similar in basic character to three previous downturns since the present expansion cycle began early in 1933 and to two sharp corrections in the 1924-1928 market. Thus far, the scope of the reaction, in percentage drop from last previous high, has moderately exceeded that of the April-May reaction a year ago, but is much less than was experienced in reactions in 1934 and the summer of 1933.

There is, of course, no rule of thumb by which the maximum possible scope of an intermediate reaction can be infallibly forecast—especially in these days when the technical habits of the market have been radically altered by Federal restrictions, when extreme "thinness" makes many issues vulnerable to even slight selling pressure and when the influence of European investment and speculative operations on our market is far greater than ever before.

Nevertheless, past experience in bull markets has led us to accept as a generally sound principle the theory that, as long as the basic factors appear favorable, a reaction of 10 per cent can be regarded as carrying well situated stocks into a worth while buying range for intermediate and longer range investment and speculative purposes; and that allowance for maximum reaction of around 15 is usually fairly safe. As above noted, the decline thus far has been about 14 per cent in the Dow-Jones industrial average and approximately 19 per cent in our broader composite.

Judged by the pattern of the past five weeks and taking into account the sharpness of the most recent dip, it is probable that the market is close to another rally. As to whether a final level of resistance has been established, there is no basis for a dogmatic answer. Our belief is that the market is at or very near a definite turning point, but there is nothing sacred about "resistance points" on the charts and anyone who buys stocks at the exact bottom of any intermediate reaction does so by chance, rather than judgment. A safety first policy, however, was outlined in this article a fortnight ago. We then expressed the conviction—not one whit altered by what has happened since—that the market in general had entered an area attractive for selective purchases but that the safe course was "to await a flattening out of the movement suggestive of a firm plateau of resistance, even though this method will involve paying a bit more than bottom prices." That advice still stands and so does the list of ten equities especially recommended in our issue of May 8.

As always in severe reaction, people are wondering as to the cause, are searching for mysterious sub-surface factors not yet revealed, are grasping at every development subject to possible unfavorable interpretation and

How Various Stock Groups Behaved in the Decline from March 6 to May 15, 1937

(Market as a whole, measured by The Magazine of Wall Street's Common Stock Price Index, declined 18%)

DECLINED LESS THAN THE GENERAL MARKET

	Per cent
Agricultural Implements	—7
Amusements	—13
Cans	—10
Chemicals	—12
Finance Companies	—4
Liquor	—11
Paper	0
Petroleum	—10
Railroads	—15
Sulphur	—13
Tires	—11
Tobacco	—15

DECLINED ABOUT THE SAME AS GENERAL MARKET

Auto Accessories
Business Equipment
Construction
Drugs
Foods
Gold Mining
Machinery
Mail Order
Telephone and Telegraph
Textiles
Variety Stores

DECLINED MORE THAN THE GENERAL MARKET

	Per cent
Automobiles	—25
Aviation	—29
Construction	—23
Copper and Brass	—31
Department Stores	—22
Metals	—23
Radio	—22
Rail Equipment	—25
Realty	—37
Public Utilities	—26
Steel	—22
Tractions	—34

are ignoring virtually all good news. In such a setting an earnings report far above previous expectations will be noted with a moment of pleased surprise and then promptly forgotten, as has happened several times recently. Timid, nervous, uncertain investors and traders say: "Yes, but those earnings are water over the dam. What about third quarter profits? What about rising costs? What about business recession? What is Roosevelt going to do? What about London selling? What about the price of gold? Is Washington going to abolish margin trading? Will the Government regulate prices? What will declining commodities do to business? What about the labor situation?"

Well, there has been no single cause behind this reaction. As we see it, the *chief* causes were the collapse of an over-done commodity speculation in London and a sudden realization that the Roosevelt Administration meant business in its transition from the extended period of economic stimulation and price-raising to the new phase of boom control.

Sporadic strikes, usually quickly settled, represent nothing new in the labor situation. The margin rumor originated in the fact that one group of New Deal advisers is known to have urged some weeks ago that the stock market be put on a cash basis. That such action was not taken when the market was many points higher than it now is would seem a fairly logical reason for doubting that it will be taken now. Should it be taken at some later date, when the bull movement is resumed, it would not apply to existing margin positions and it would not end a bull market whose backbone has been cash investment buying. That it has been a cash market to a preponderant extent is indicated by the fact that from the low point of March, 1933, up to April 1 of this year total increase in Brokers' loans, as compiled by the New York Stock Exchange has been about $750,000,000 while value of all listed stocks increased by nearly $45,000,000,000.

The decline in commodities is not a disaster. It may temporarily affect adversely earnings of a minority of corporations to which so-called inventory profits or losses are important, but, in the interest of continued business recovery, a stabilized or *gradually* rising price level is much to be desired. As will be observed by examination of a chart presented with a special commodity outlook article on following pages of this publication, the recent excitement has centered in speculative commodity markets, with no proportionate gyrations in the broad index of the Department of Labor. This means that the recent wide fluctuations of speculative quotations in copper, rubber and other materials has little significance to the buying public and not much more to the average manufacturing company, since few either bought or sold much goods at the recent top of the commodity boom.

Among the current worries, this leaves for consideration the prospect for business volume, costs and profits; and the big conundrum of what will happen at Washington—the latter meaning, these days, what Mr. Roosevelt thinks and wants to do.

Those aspects of New Deal policy that relate most importantly to the outlook for the markets are discussed on following pages in an article entitled "The Next Move of the Money Managers." Suffice it to say here, as we have said before, that while the Administration is seeking by somewhat experimental methods to prevent the development of a dangerous boom, it is absolutely committed to further economic expansion. Certainly none can quarrel with the desirable objective of a stable prosperity, even though only the longer future can reveal whether it is humanly possible to attain it.

The present economic setting certainly is a sounder one than existed a few weeks ago. The greatest danger that crept into the recovery picture was over-fast price-raising. As has been pointed out by this publication, the main factor responsible was a temporary shortage in commodities such as has been encountered at some level

of recovery after all depressions. Expanded production, induced by profitable prices, has always ironed out such price squeezes, with benefit all around, rather than serious economic damage. As we see it, the hopeful thought to bear in mind is that an orderly expansion of production, geared to rising consumer purchasing power and not accompanied by excess of speculation, is not only what the New Deal desires but is what we are much more likely to experience, now that the price-raising bubble has burst and business men are concentrating their energies on volume.

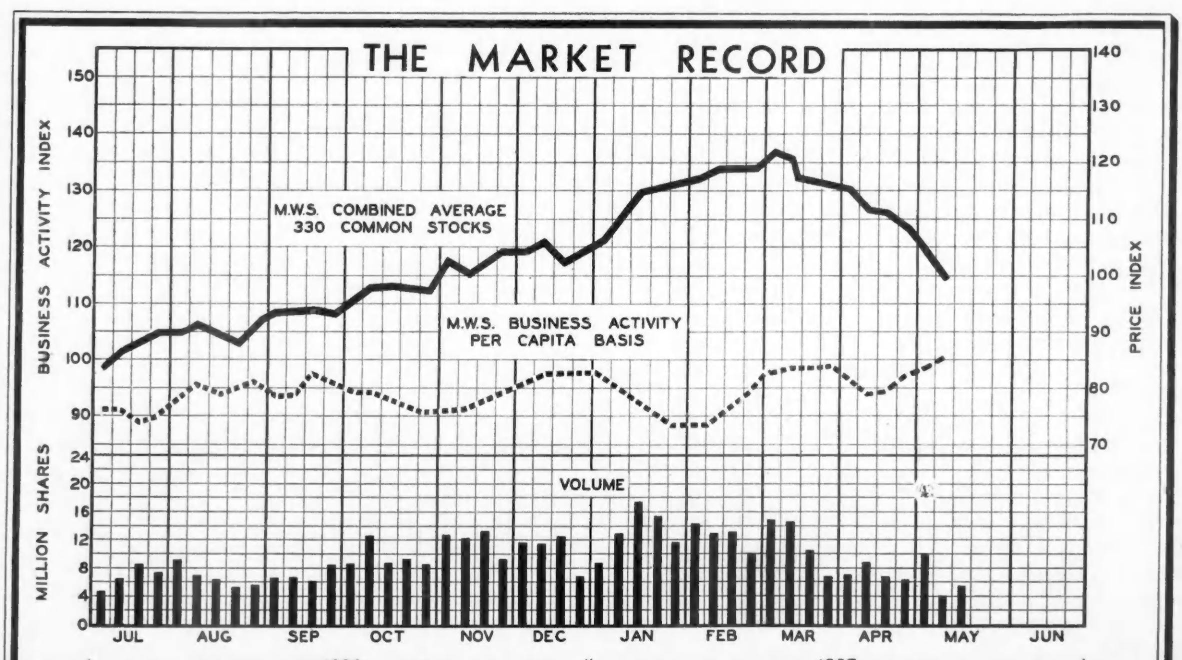
We entertain no fear that the Administration will take action to control industrial prices, because it is our conviction that the movement of such prices over the next six months or year will demonstrate there is no need for official intervention. As a matter of fact, the views of the President emanating from his first press conference following his recent Texas trip appear more reassuring than otherwise and can hardly be held to contain anything of surprise. He reiterated that he opposes speculation in natural resource products and is studying methods of maintaining price levels of such commodities on the most even keel possible. Mr. Roosevelt held the same view in 1933 and the markets were not worried about it. The methods to be used, it may be added, have not yet been found, but the President intimates that what he has in mind is some kind of production control for natural resource commodities and not actual price-fixing.

In general, our reasoning is that the New Deal is well satisfied with the correction that has been seen in speculative markets, that it would not like to see an extension of reaction in either commodities or stocks of such scope that it might endanger the course of the basic recovery, and that its near-term moves will be dictated by this attitude.

As for the business outlook, it may well be that the now ended period of active forward-buying—which carried production in some lines beyond the level of current consumption—may result in a summer recession of greater than seasonal proportions, but as we look at the consumers' end of the business picture it is impossible to foresee a production set-back of either important scope or long duration. Retail trade right now is some 15 per cent higher than a year ago and shows substantial improvement as compared with April. The latest statistics show cash farm income 23 per cent larger than a year ago, factory payrolls 31 per cent greater than a year ago and dividend payments 36 per cent greater than a year ago. These trends in purchasing power are likely to continue at least through the second quarter and they are not the stuff of which a collapse in production is fashioned.

It is true, of course, that in some industries affected by a high degree of leverage in capitalization or plant set-up, even a 5 or 10 per cent decline in third quarter production could materially lower profits for the time being. That possibility, however, has been substantially discounted in the market's reaction and we are not many weeks from the time when investors and traders will begin to look a bit further ahead and figure what these companies can do when volume again renews its advance. Volume, rather than increased costs, holds the answer to third quarter earnings. The trend of costs in materials and labor has long been upward. As to materials, the rise has been checked; and there is considerable reason to believe that spectacular wage-raising is also over for some time to come in the leading manufacturing industries. Therefore, third quarter costs should be no higher than costs of the present quarter.

No doubt our markets will continue to keep a close eye on London trends. We are inclined to accept the view of London observers that the worst of the reaction there has been seen. Like *(Please turn to page 188)*



Arming for Neutrality—Trading for Peace

BY JAMES D. MOONEY

(Vice-President, General Motors Corporation)

Wide World

NOT very long after the great nations laid down their arms in November, 1918, an economic warfare began that has increased in momentum and intensity until we find ourselves today, nineteen years after the armistice, seriously discussing the strong possibilities of another world war. Dangerous frictions have been developing among several of the great nations and these frictions arise principally out of economic causes. We observe great fear, even horror, among the peoples of some of these great nations that their whole industrial and social structures will collapse if they are not provided with freer access to the raw materials and foodstuffs of the world.

Here, then, is the crux of the whole problem. Shall this freer access to these raw materials be provided by peaceful means, that is, by a generous reopening of international trade? Or shall we let the situation drift into increasing desperateness, with the peoples of all nations suffering the anguish of a continual and haunting dread of war? Shall we in America cast some bread upon the waters, as our contribution to peace; shall we give up a few commercial advantages and risk a slight threat to our pocketbooks? Or shall we move with the rest of the great nations, as we have begun to move, and undertake an armament program that will cost us billions of dollars and increase our present staggering load of taxes?

This is the choice we must make, and we must make the choice now. We must plan our policies now for the preservation of peace, or soon it will be too late.

The situation presents a challenge to the leaders of government everywhere. Specifically, they must take practicable steps to assure to the great industrial nations the raw materials they need in exchange for the goods they have to offer in the markets of the world.

America can make a substantial contribution toward maintaining world peace by taking the leadership in this movement for a greater freedom in international trade. This is exactly what Secretary of State Cordell Hull is trying so earnestly to do, and his efforts justify the whole-hearted support of every American interested in world peace.

Let us take it for granted, then, that we shall do whatever we can to support the efforts that are being made toward maintaining peace in the world. But meanwhile, it would be very foolish for us to proceed on the complete presumption that another great war in our time is utterly impossible. Let us consider, therefore, what we can do to keep out of the world war, if it must come, and to reduce the great damage such a war would inflict on all non-belligerent nations, including ourselves.

The neutrality act adopted by Congress last month represents, beyond question, a sincere effort to keep the United States out of war. Under the mandate it imposes, the exportation of arms and munitions to any belligerent would be embargoed, and, under Presidential proclamation, the shipment of raw materials and other supplies can be put on a cash basis, delivery to be effected at an American port, and transportation to be at the risk of the purchaser. In effect, as far as mainte-

nance of a flow of exports in time of war is concerned, this would constitute a partial abandonment of the principle of freedom of the seas for American ships.

But I am definitely in sympathy with this idea, because it is aimed at avoiding any possibility of our getting drawn into a war through a policy of maintaining our exports at any cost. I am opposed to any policy that would call for efforts to maintain our export business at the risk of creating frictions and irritations that might lead us into war.

Besides, I am not too much concerned with these export aspects of this neutrality legislation. Out of the rich experience we gathered as exporters in the last war, I can find no reason to bewail the business we should lose by refusing to send the fleet out to protect a cargo of cotton or foodstuffs. The cold fact of the matter is that most of the goods we sold abroad during the war and post-war periods were never paid for. I am quite willing, therefore, to see such shipments put on the basis of cash on the barrel-head in New York, and carried off by the purchaser at his own risk.

What I am deeply concerned about, however, is our ability to continue to import those raw materials which we need to maintain our vast industrial scheme, regardless of what is going on in the rest of the world.

In time of war, the greater importance of imports requires special emphasis, for then it may easily come to pass that any impediment to the inflow of materials from abroad may imperil our very means of life. In a productive sense no modern industrial nation is ever self-contained. I refer not to products like tea, coffee, and silk which, by reducing our standards of living, we could do without. I refer rather to critical materials such as tin, rubber, and nickel, which are at all times vitally necessary.

I refer, furthermore, to those materials which may seem of minor importance in themselves, such as manganese and antimony, but without which many of our major industries could not function. A supply of these materials must be maintained by a modern industrial people as a matter of sheer self-preservation.

What if the supply of rubber from Malaya and the East Indies were interrupted? What would be the effect on the tire industry, and through it, on the automotive industry? Suppose supplies of nickel, manganese or antimony were cut off. What, then, about alloy steels? Could our machine tool industry get along without them?

I do not think it is necessary for me to labor this point any further. I am sure that all will agree that certain things which we do not have and which we cannot produce within the United States are necessary for the maintenance of our industries.

It seems plain, therefore, that we must be prepared to command such freedom of the seas for the American merchant marine as will enable our ships to continue the flow of raw materials needed to support our industrial life. This means, of course, that we shall have to continue to build up our navy.

The outbreak of a great war would find us wholly unprepared to keep open our trade channels with our own ships. The belligerents, of course, would commandeer all of their own national ships in defense of their own military and economic maneuvers.

The total tonnage of American ships afloat at the present time is deplorably small, due largely to governmental policies that for years have starved and discouraged American ship-building and shipping. On the basis of average speed and age, the American freighter fleet is about comparable with those of Greece and Spain.

Accordingly, we shall have to get on aggressively with the building up of the American merchant marine.

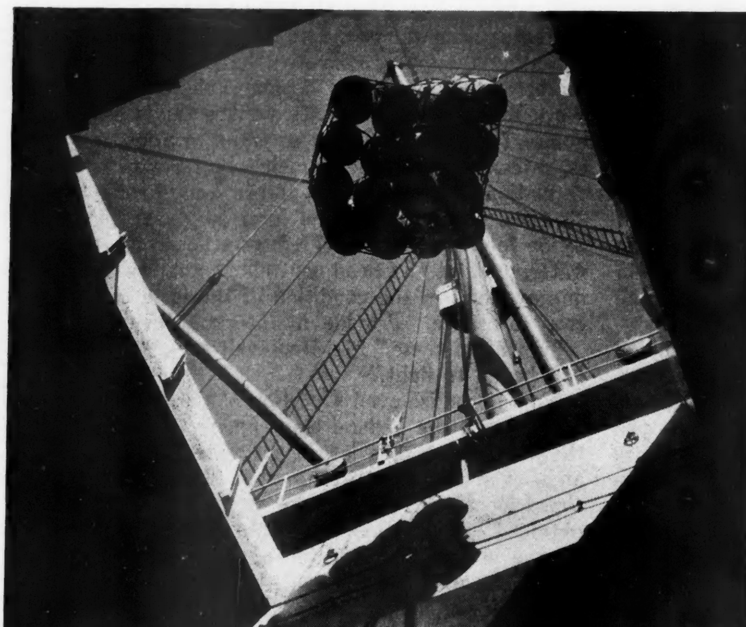
These are my suggestions for an American trade (*Please turn to page* 188)

The Cardinal Points

Build up our navy to preseve neutrality.

Increase our merchant marine to insure a flow of raw material imports essential to our industries.

Encourage only those exports that will be paid for—transportation at purchaser's risk.



Ewing Galloway

"Down the Hatch"

The Next Move of the Money Managers

— Gold Prices

— Market Control

— Federal Expenditures

BY JOHN D. C. WELDON

THE Roosevelt Administration began to "sit on the boom" more than nine months ago, although a boom was then and is now merely a potentiality. It put the screws on potential bank credit expansion—before there had been any significant expansion except in Government debt—by successive raises in bank reserve requirements. Through the public utterances of one official after another, including the President himself, it sounded repeated warnings aimed at stock and commodity speculation.

Now that the stock and commodity markets have had a sharp reaction, many investors and business men are wondering what it is all about, and what the next move of our money managers will be. Inevitably an atmosphere of mystery surrounds the moves and countermoves of a managed economy directed by executive discretion, rather than by open action of Congress; and complicated at all times by international factors. Because the public does not know what is going on in the inner councils and because there have been various contradictions and inconsistencies in the zig-zag course of the New Deal since early in 1933, many who are unable to take Mr. Roosevelt on sublime faith wonder whether there *is* a coherent policy. Confusion of mind has been intensified by four months of stalemate in Congress, as both important legislation and revelation of Mr. Roosevelt's next objectives have been held in abeyance pending outcome of the fight to enlarge the Supreme Court.

For perspective, it is well to keep clearly in mind a few cardinal facts. The most basic fact and the most important business development of our time is that as a result of the 1929-1932 debacle the American people, by overwhelming mandate, have placed their reliance upon the Federal Government for control and betterment of the economic conditions under which they live. Their desire, which may or may not be attainable, is stabilized prosperity. Depending upon whether it attains this objective or comes acceptably close to it, the New Deal will stand or fall.

The second cardinal fact to bear in mind is that from the start of the New Deal the *methods* resorted to have been acknowledged—either openly or tacitly—to be experimental and subject to quick change. Hence the zig-zag course between Left and Right, but always tending a bit to the Left. The structure of New Deal managed economy and the controls regarded by the President as desirable or necessary have by no means been built. There is much more of experiment to come—if Mr. Roosevelt retains his hold on Congress.

We have said that the general objective is stabilized prosperity. For those who wish a bill of particulars, it may be added that most of Mr. Roosevelt's specific *purposes* have been made clear, even though he has largely kept his own counsel as to methods. His final campaign speech in New York City last autumn outlined his objectives as follows:

"Improve workers' conditions by reducing over-long hours, increasing starvation wages, ending child labor and extirpating slums and sweat-shops. End monopoly in business, support collective bargaining, stop unfair competition and abolish dishonorable trade practices. Work for cheaper electricity on the farms and in the homes, for better and cheaper transportation, low interest rates, sounder home financing, better banking, better regulation of security issues and reciprocal trade treaties. End the piling up of huge farm surpluses. Persist in action for better land use, reforestation, conservation of water, drought and flood control, commodity marketing, improvement in the condition of the farm tenants and crop insurance. Provide useful work for the needy."

"For all of these," Mr. Roosevelt said, "we have only just begun to fight."

Now to realize even a portion of these ambitions will require that the Federal Government continue to route the distribution of a large part of the national income and—even more important—that there *be* a large national income from which the requisite revenues may be obtained. It will also no doubt require more or less change in the interpretation of our Constitution, however that may come about—whether through forced change in the composition of the Supreme Court, voluntary retirements or otherwise.

Our point is that, insofar as Constitutional interpretation and the attitude of Congress will permit, Mr. Roose-

velt has the firm intention of taking us much further along in a managed economy, directed from Washington, than we have yet gone. Whether at this session of Congress or next year, he can be expected to propose further controls, including legislation on wages, hours of work and trade practices; and weapons with which he may have the power to put curbs on prices and business profits, if he thinks it necessary.

Assuming Congress will "go along," that is a prospect that most investors will view with concern—but what is one possessed of capital funds to do about it? One can shape an intelligent investment policy only on the basis of conditions as far ahead as can be seen at any given time. As far ahead as can now be seen, good stocks are certain to have the edge over cash for the simple reason that short-term funds for an indefinite time will continue to command only a pittance in the money market while yields of 3 to 6 per cent will be available in numerous sound equities.

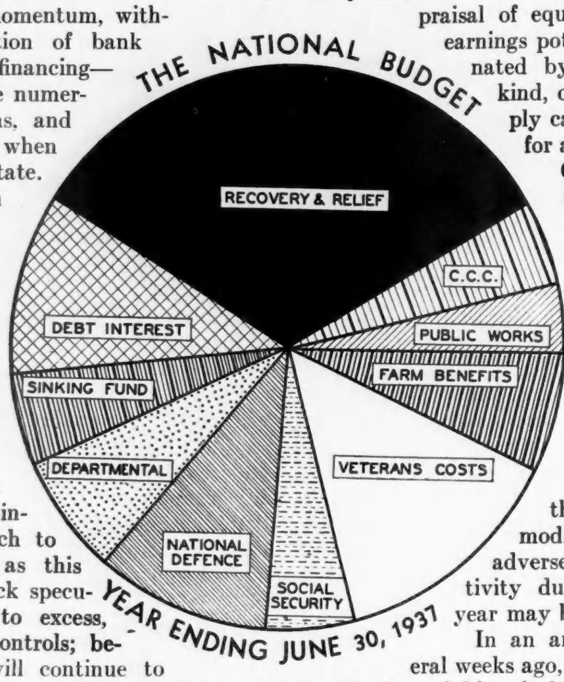
But if the longer-term objectives of our money managers are reasonably clear, can the same be said for their short-term moves? This is the question of immediate concern. What is the Government's present attitude as regards the stock and commodity markets which it was viewing with concern not so long ago? What, if anything, will it do about the price of gold and the "hot money" problem? Is there any significance in the present "economy drive" at Washington? These questions are of vital importance to the markets, because the cornerstone in national monetary management is the Government's own budget—master key to bank money inflation or deflation—and the two major problems of the Treasury are relief expenditures and the financing of purchases of gold for "sterilization" in its inactive account.

As to the first question—the Government's present attitude as regards the stock and commodity markets—it is this writer's conviction that no more deflationary actions or utterances will be forthcoming from the Administration for some time to come. To continue talking down or otherwise depressing markets which have now had a drastic correction would be illogical to say the least, since the farther such intermediate reactions go the greater is the risk of contributing to a business set-back of more serious proportions than Washington could afford to see. The cold fact is that the New Deal can stand a temporary and relatively moderate recession in business, but it can *not* stand either a termination of the recovery movement at this stage—with unemployment still a serious problem, the budget unbalanced, the national income still sub-normal and per capita industrial production well under former peak levels—or a renewal of deflation.

Therefore, even should the speculative markets work a bit lower before a base of stability is established, one will be on reasonably safe ground in regarding this readjustment as merely a temporary interlude in the underlying expansionist cycle. Should it threaten by any chance to become anything more serious than that, it is just about a 20-to-1 bet that the New Deal would frantically jerk its foot off the brake and press down again on the accelerator of economic stimulation

through one method or another. It knows how to do that.

The strong probability, however, is that no heroic about-face will prove necessary, and that the near-term trends of business and the markets will be such as to permit the Administration merely to stand by, without resort either to renewed artificial stimulation or to further deflationary endeavors, let business and market adjustments work themselves out and see how recovery can get along on its own momentum, without further dynamic inflation of bank money through deficit financing—meanwhile holding in reserve numerous existing control weapons, and others in preparation, for use when and if conditions appear to dictate.



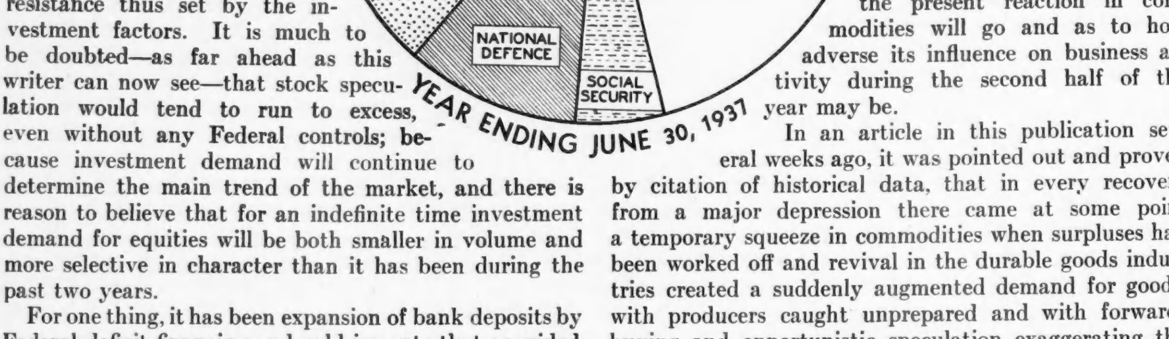
So far as stock speculation is concerned, its volume—already abnormally low—can be curtailed further at any time simply by abolition of margin purchases; but the backbone of the bull market has been investment buying for cash, both domestic and foreign, and speculation has in general merely followed the lines of least resistance thus set by the investment factors. It is much to be doubted—as far ahead as this writer can now see—that stock speculation would tend to run to excess, even without any Federal controls; because investment demand will continue to determine the main trend of the market, and there is reason to believe that for an indefinite time investment demand for equities will be both smaller in volume and more selective in character than it has been during the past two years.

For one thing, it has been expansion of bank deposits by Federal deficit financing and gold imports that provided the cash which has been the chief support of the bull market. This stimulus is no longer operative in former degree and will hardly be replaced by private credit expansion over the next year or two, especially since the latter is subject to definite controls and since the view of the Reserve Board is that bank deposits are high enough. This leaves the wherewithal of investment demand to come from increased velocity of existing deposits and the normal increment of savings. For another thing, it is to be doubted that foreign demand for American stocks will continue at the rate of the past two years. For a third thing, waning investor fears of a run-away inflation—together with the fact that more and more formerly depressed industries are approaching the "rounding out" phase of the recovery cycle, with the largest percentage gains now behind them—will inevitably make for increasing selectivity in investment appraisal of equities and in close scrutiny of earnings potentialities. In a market dominated by investment realities of this kind, over-optimistic speculation simply can not take the bit in its teeth for any length of time.

On the whole, therefore, we doubt that the Government will see any reason to "do anything" about the stock market for a considerable time to come. It is even more certain that it will have no reason whatever to worry about commodity prices running away. On the contrary, it is much more likely to entertain some concern as to how far the present reaction in commodities will go and as to how adverse its influence on business activity during the second half of the year may be.

In an article in this publication several weeks ago, it was pointed out and proved by citation of historical data, that in every recovery from a major depression there came at some point a temporary squeeze in commodities when surpluses had been worked off and revival in the durable goods industries created a suddenly augmented demand for goods, with producers caught unprepared and with forward-buying and opportunistic speculation exaggerating the transitory shortage.

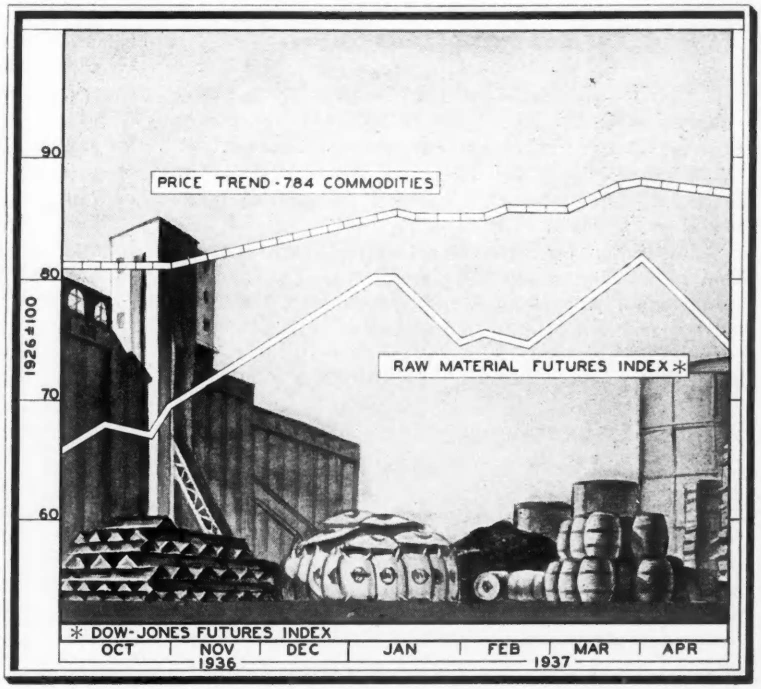
The New Deal is still committed to a price level "approximating" that of 1926. That does not mean exactly. It is probably satisfied with the present level; and so far as industrial prices are concerned it is most unlikely that there will be occasion for any Federal price-lifting and improbable—as production of marginal enterprises expands—that any considerable number of commodities will rise far *(Please turn to page 190)*



Is the Decline in Commodities Over?

BY H. F. TRAVIS

THREE intangible factors were largely responsible for the April collapse of the commodity booms in world markets, namely, the "peace" scare, the Roosevelt scare and the gold scare. "Peace scare" is an expressive term for the marked change in the European situation that followed the rout of the Italian "volunteers" in the Spanish civil war and the gigantic new British armament program. Speculators in the foreign commodity markets who evidently had been willing to bid up future quotations for raw materials to extravagant levels on the strength of European preparations for hostilities, took cognizance of the rapid shift of the war probabilities in the light of these events. High priced speculative commodity commitments were hastily liquidated throughout world markets.



In the midst of such unsettlement, President Roosevelt issued his famous declaration that prices of raw materials used in the capital goods industries had advanced in price too rapidly, rounding out this general view with names and figures. Naturally, the widespread publicity which the President's views received was disturbing to speculative holders of commodity contracts who had given great weight to the supposed objectives of the Administration in regard to re-establishing the 1926 price level. The so-called "Roosevelt scare" was capped by the President's stern admonition that Federal employees must not speculate and an after-thought that the same advice might well be heeded also by others. Although directed primarily at security speculation, these public declarations appeared to dispel the illusion, which had charmed commodity markets for four years, i. e., that Administration policies were, in effect, a guarantee of high prices. Repercussions on speculative sentiment in commodity markets, here and abroad, were instantaneous.

Finally, the gold scare also appeared to have played a noticeable but less spectacular role in the liquidation of speculative positions in commodities. This factor has not yet evolved into anything more tangible than the "persistent rumor" stage. Indeed, these rumors have brought categorical denials from the Secretary of the Treasury, who is charged with the "management" of the dollar. Even the President has been moved to scoff at the authenticity of published gold rumors, although in less positive and emphatic manner. In contrast to earlier gold rumors, present uncertainties are whether or not the existing gold price will be *lowered*.

Of the three factors discussed above, only the gold uncertainty appears to remain as a possible adverse influence hanging over world commodity markets. Possibly this influence may also shortly run its course, since the importance of gold changes on commodity prices has been greatly discredited by events in the past three years. In retrospect, it now appears quite clear that gold changes have effected commodity speculative operations, rather than commodity prices, although, of course, speculative operations in turn effected prices. From the time that the old gold basis was abandoned in April, 1933, until the *de facto* stabilization of the gold price at $35 an ounce in January, 1934, commodity markets were highly responsive to the gold changes—in fact in many instances anticipated such changes. A representative wholesale commodity price index shows that prices started to move upward in March, 1933, although the

old gold dollar was not officially abandoned until April 20. By July, the American gold price had increased 49 per cent, and while some individual commodities recorded a similar or even higher percentage increase, the average commodity price increase was only about 35 per cent. The $35 an ounce gold price was fixed in January, 1934—an increase of 69 per cent over the old price—but the average commodity price increase then was only slightly higher than in July, 1933. Even the steady subsequent advance in commodity prices to the end of 1935 brought an average increase of only about 62 per cent and was followed by an average recession of about 8 per cent early 1936. Not until the latter part of 1936, did average commodity prices increase by 69 per cent of their depression low, approximately three years later than when gold was fixed at a 69 per cent increase. It is evident that, after the immediate speculative surge of commodity prices, forces other than gold prices were instrumental in the subsequent commodity price recovery. With the elimination of top-heavy speculative positions in the world commodity markets, support will again come principally from the supply-and-demand factors, that were really responsible for the price recovery in recent years.

Admittedly, the improvement in the statistical position of leading commodities resulted partly from Administration policies here and governmental efforts of foreign countries. For example, the farm production curtailment programs were responsible for the substantial reductions in carry-over of crop supplies held privately or by government agencies in wheat, corn and cotton. The increased wages and operating costs from the N I R A became prominent factors in production costs (and therefore in prices) of semi-finished or manufactured products. Foreign production cartels and restriction agreements in international commodities such as rubber, copper, sugar and tin had various forms of government sponsorship and were an important factor in reducing the large surpluses of these commodities.

Public works expenditures, farm benefits and relief payments of the American Government undoubtedly stimulated recovery by creating purchasing power and expanding credit resources of the banks through the resulting deficit financing. The building program in England, industrialization in Russia, rearmament in Germany added further stimulus to world industrial recovery. These governmental activities, therefore, contributed materially to the marked expansion of demand for raw materials which in turn aided in the reduction of surpluses and improvement in the statistical position of individual commodities.

The degree to which natural recuperative-powers of industry in the United States and throughout the world contributed to the recovery cannot be calculated separately from the artificial stimulation and the special restrictions on production resulting from governmental depression-fighting efforts. In the aggregate, however, a normal supply and demand relationship had been created for the leading world commodities by the end of 1936, totally independent of currency depreciation and increased gold prices by the principal commercial nations.

Gendreau

Copper mining by new methods permits rapid production step-ups.

Except for temporary repercussions on speculative sentiment, there is little reason to expect any lasting or profound effects upon commodity price levels from any moderate adjustments of gold exchange points, such as have been subject of numerous rumors on both sides of the Atlantic in recent months. The layman might properly take the point of view that where there is smoke there is fire and that the very persistence of reports of impending gold changes indicates that there is some basis for the recurring rumors. Indeed the basis is not very difficult to find. The constant movement of capital to the United States has created an intolerable situation for the Treasury because of the accompanying and unwelcome gold imports to this country. There appear to be other possible solutions of this vexing problem, however, without altering the present gold price.

With curtailed speculative interest in world commodities at present, the most logical appraisal of the outlook for individual commodities would be made on the basis of their existing statistical position, rather than on the basis of presumed general price repercussions in the event of any change in the gold price. Some of the data pertinent to the present supply-and-demand position of leading commodities is presented in the following paragraphs.

Non-Ferrous Metals

Gendreau

Cotton Bolls—Increased acreage in cotton indicated this year.

Notwithstanding the recent erratic price fluctuations of the non-ferrous metals, due to foreign speculation in futures contracts, to armament demands and to semi-speculative positions taken as a hedge against inflation, rising prices over the past year or so have been well supported by a substantial improvement in the statistical position of such metals as copper, lead and zinc. The April copper statistics, recently released, are a case in point. World output of copper in April, 1937, amounted to 215,740 tons as compared with only 135,850 tons in April, 1936, the production restriction agreement of the foreign copper producers having been abandoned in the interval and domestic mine production having been stepped up rapidly under the stimulus of price increases. To the surprise of the trade generally, April statistics showed a decrease of 25,070 tons of refined copper stocks in spite of the increased production. Since January, 1934, when domestic refined copper stocks were 524,060 tons, about 424,500 tons of the domestic supply have been worked off, reducing stocks to below the 100,000 ton level, a bare workable minimum at the present rate of consumption. There apparently is still some lag between the higher rate of mine production and actual refinery output of the finished metal, since blister stocks increased somewhat during April. Demand factors continue highly favorable, however, with possible substantial additions to demand in sight from the building and electric power industries, both of which provided large outlets for copper in former good years, but are still taking the red metal at an abnormally low volume. With world consumption still running about 15,000 tons above refined production, there should be considerable support for the reduced domestic price of 14 cents a pound, notwithstanding the speculative upheavals recently noted. Over the longer term, the price might well work higher on anticipated expansion in demands.

Lead and zinc similarly enjoy a much improved statistical position. Although the reduction in lead stocks materialized much later in the recovery than the declines in stocks of both zinc and copper, the movement has been exceedingly rapid since it started in August, 1936. At that time domestic refiners were carrying record stocks of more than 318,000 tons and by April 1, 1937, this supply was reduced to below 213,000 tons. Since lead stocks are strongly held (the large bulk of available supplies being carried by several of the largest producers) the sharp increase in consumption during the past eight months has found the market highly responsive. Markets have been quiet recently in sympathy to the recessions in foreign metal markets. Gradual recovery to recent high is believed likely. Zinc has been highly sensitive to price repercussions abroad and quite likely will continue so because of the smaller import tariff protection and consequently, the ability of foreign producers to deliver supplies here on a competitive basis. Aside from this factor, however, the statistical position of the domestic zinc markets is very strong, supplies having long since been reduced to a minimum of necessary working stocks, by rationalized production, and consumption showing a secular trend upward as new uses have been developed for this metal. Principal demand sources of die-casting and galvanizing appear likely to be well sustained, although an inherent restriction on price advances exists because of the existing price equivalent of low cost foreign material.

Petroleum

The statistical position of petroleum has undergone marked improvement in the sense that surface supplies of crude oil were reduced to around 285,000,000 barrels in January—a fifteen year low record and approximately what the industry requires for its actual working stocks under present demand conditions. However, these statistics do not tell the whole story. This reduction in the industry's crude oil inventory has been accomplished largely through voluntary conservation programs and state-enforced pro-ration systems, which have further legal backing in the Connally Act and the Inter-state Oil Compact. Potential production (as distinguished from allowable production under state pro-ration plans) probably is about as large at present as it was after the discovery of the East Texas field with its disastrous flood of crude and a 10 cent a barrel price level. Proration has been found to be an effective means of controlling the supply of crude at the well, however, and has permitted the industry to attain a satisfactory balance between supply and *(Please turn to page* 195)

Happening in Washington

BY E. K. T.

Revolt in Congress, brewing for weeks, shows signs of breaking out in the open. No longer are bills being passed the way the President wants them just because he wants them that way. On show-down record votes President can still win, but spirit of independence has been growing so fast that his control is seriously threatened.

Court reorganization prospects are that the President can still get his bill uncompromised by narrow margin if he uses the limit of his pressure, but at cost of permanent disaffection of the real Congress leaders. House is rapidly growing cooler on the bill, though if brought to vote there soon it probably would receive somewhat larger majority than in Senate, which appears evenly divided. But House judiciary committee is more against it than the Senate committee.

Significant thing is that while White House henchmen have been working desperately for three months to corral votes for the court bill, it is losing support constantly.

WASHINGTON SEES

All too quiet along the Potomac—outwardly.

Signs that Congress is breaking free from executive domination.

Economy going too far for White House comfort.

Farm program stymied by internal dissention.

Company union issue far from ended.

Executive reorganization plan dead.

Windfall tax in difficulties.

F D I C swinging into action.

S E C increasing in power and importance.

Economy outcome will have much to do with President's control of Congress next year. If he gets discretionary authority to withhold appropriations where he pleases he will have club over Congressmen who will want certain activities continued, but if Congress holds the purse strings it will be free of this domination.

Roosevelt's economy talk is being taken more seriously by Congress than he intended. He merely wished to head off inflationary scare and kill new spending legislation not dovetailing into his immediate program; is not ready to liquidate or curtail the New Deal. But Congress shows unexpected inclination to take him at his word and make real efforts to balance the budget, which may cramp his spending style severely.

No "swing to right" should be inferred from economy talk, anti-trust actions, and failure to push new social legislation. Administration still favors heavy Government spending for aid of "depressed third"; still favors moderate "collectivization" of industry and agriculture under strict Federal control; has no intention of embracing doctrine of laissez faire and free competition. Wants to break up power of business men to determine major economic policies; wants to insure workers large share of national income; wants further protection of investors from mismanagement by financial groups. This program is not abandoned, but delayed by inability to decide on details, by temporary need for economy showing, by desire to get Supreme Court bill through first.

Company union situation is currently N L R B's biggest problem. Scores of companies have cut loose their employee representation plans in compliance with Wagner act, but employees themselves are reorganizing them to avoid being forced into outside union. Union organizers fight this bitterly. Action is legal if entirely voluntary and spontaneous, but Board views all such with greatest suspicion and in some cases appears to be going beyond the language of the law in preventing employers from dealing with plant organizations.

Government reorganization bill is wanted by Roosevelt more than he cares to admit, but it is snugly buried in Congress committee and won't be passed this session. The more Congressmen think about the powers

it would give the President, the more they dislike it. Just one more sign of growing legislative independence.

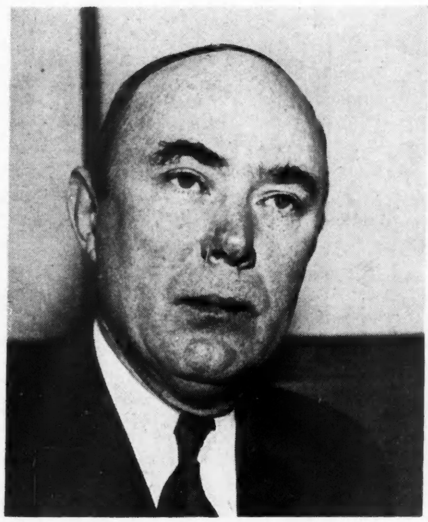
Trade agreements drive being renewed by State Department. Long program to show Great Britain she could benefit by tariff bargain with us is making some progress and may bear fruit soon.

Gold imports still worry New Dealers, but obstacles face every suggestion for internal remedial action, and best bet is nothing will be done soon. Hope turning to foreign developments which may reduce flow.

Windfall tax returns are now coming in after deadline has been repeatedly extended during past eight months, but tax is so complicated and constitutionality so doubtful that long litigation is in prospect. Yield is problematical but will be much below estimates. Processing tax refunds also lag and face litigation.

Unemployment tax rulings affecting co-ordinated Federal and state laws are being made so slowly by internal revenue bureau that state enforcement officials are greatly provoked; they and affected employers may make public protests.

Unemployment census plans are being pushed by executive officials and Congress committee in spite of Roosevelt's open and repeated opposition.



Wide World

Major George L. Berry, new Tennessee Senator is the first real labor leader in the Senate.

F D I C is determined to be dominating force in control of nation's banking system. Swinging club of expulsion from insurance fund, it is campaigning against speculation by banks, low ratio of capital to deposits, large bank dividends, failure to charge off questionable loans and build up depression reserves. Is making a drive against chartering new banks and wants to reduce number of active banks through mergers.

Credit institutions other than banks (particularly building and loan associations and personal and installment finance companies) may soon be faced with strict state regulation. F D I C and Home Loan Bank Board are both working for such.

S E C program for more finance control legislation is slowly taking form, but Congress is being given chance to determine form and speed of bills. Recent recommendation for bankruptcy law changes to provide supervision over corporation reorganizations is number four in series of eight growing out of long study of protective and reorganization committees. Prior ones dealt with municipal bond defaults, real estate reorganizations, corporate trustees under indentures. Latter is embodied in new Barkley bill which will be pressed for early passage; it imposes qualifications and duties on banks and trust companies serving under indenture agreements.

Protection of investors and minority interests as against domination by banker-management group is objective of S E C program. Forthcoming recommendations will deal with foreign bond defaults, conflicts of interests in reorganization committees, voluntary corporation reorganizations, and general findings. Later will come reports on conduct of investment trusts and common trust funds of banks. Also S E C contemplates series of internal decisions and regulations affecting several important aspects of financing and security dealing.

Thus S E C is destined to play increasingly important role in the nation's financial activities and will be under constant temptation to take a hand in management and express its own opinions instead of objectively enforcing publicity and investor rights.

Anti-boom statements by administration will not be continued at present. Feeling is inflation scare has been checked. Moderate business recession is expected by fall, with improvement in winter.

Major Berry as new Tennessee Senator is first real labor leader in Senate, first Federally-dictated Senator; gives Roosevelt dependable henchman; will have important influence on new labor and industry-control legislation. His personally conducted Council for Industrial Progress may now fold up.

Child Labor showdown by Roosevelt may be forced by action of Senate committee in holding hearings on bills of two types: direct Federal regulation and Federal aid to state prohibition. President will have to say whether he prefers Federal to state control of this and related subjects.

Farm land values are nearly high enough, in opinion of Farm Credit Adm. & Dept. of Agr. officials, and credit policies of former are being shaped to deter increases. F C A is strongly fighting Congress move to continue its subsidized low interest rates and relies on White House veto if necessary.

Social Security amendments will not be rushed but entire subject will be studied deliberately by Congress committee, S S Board experts, and representatives of employers, employees, and public. Example of return to legislative processes and abandonment of brain-trust bill drafting.

Oil fraud suspicions surrounding sale of California railroad grant lands, harbored by Navy officials for two decades, now find receptive ear in House committee. Justice Department may be directed to reopen litigation long thought settled.

Locomotives in Demand

BY ARTHUR M. LEINBACH

Ewing Galloway

Hudson type passenger locomotive used on main lines of N. Y. Central.

THE temptation to call American Locomotive the No. 1-prince-and-pauper-company of American industry is too great to resist. There may be better "princes" and better "paupers" but it would be difficult to find a more striking example than that of a concern with plant equipment designed to build 40 per cent of the locomotive equipment for the American railroads yet which did not get one single locomotive order from all of these customers during the entire year 1932. The American railroads boast of having spent nearly one billion dollars annually for materials and supplies used in their every-day operations during the past ten years. But in 1932, they simply were not buying items such as locomotives that run up to as much as $150,000 a piece. The locomotive building business was not merely depressed during the depression—it was literally and completely dormant.

In most discussions of the prince-and-pauper aspects of the capital goods industries, United States Steel usually is cited because that company lost about 130 million dollars in the three depression years 1932 to 1934 and made a profit of about 620 million dollars during the five good years up to 1931. Yet the actual change in physical production was much less marked than in locomotives. In the worst year of the depression, U. S. Steel manufactured 3,591,500 tons of finished steel products or almost one quarter of its 1929 production.

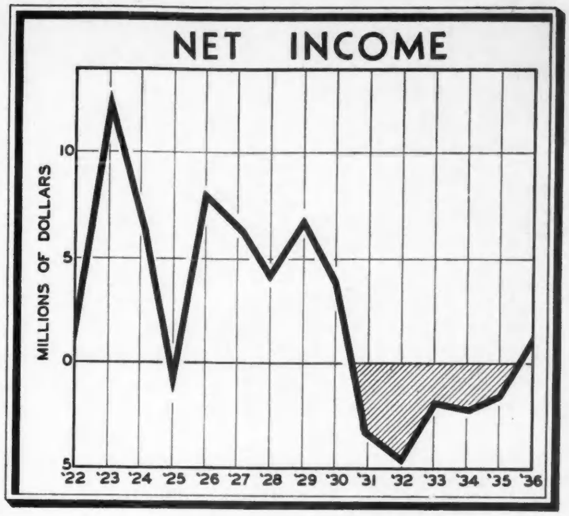
In the same year, all of the locomotive companies together received orders for only 14 new engines, one locomotive for a foreign railroad being the only order received by American Locomotive Company during the same year. In the five years ending with 1935, American Locomotive operations resulted in a net deficit of over $13,330,000. This compares with aggregate net profits of more than $29,000,000 during the preceding five years, which included one year in which the company realized net earnings before depreciation of more than $10,000,000.

In 1936, however, the company began to cast aside the tattered rags of the pauper and again to play the role of the prince. Actual profits for the year were modest, covering only about half of the preferred dividend requirements, although it was the first year since 1930 that the company realized any profit from operations. The princely aspects of the situation lie in the fact that railroads have begun to buy new engines and, if present traffic trends continue, will have to buy a lot more. American Locomotive had orders on hand for only 19 locomotives at the start of 1936 but after delivering 65 new engines carried over unfinished orders for 123 locomotives at the end of the year. From the

end of 1936 to the annual stockholders meeting on April 20, 1937, the company had delivered 28 additional locomotives and had unfilled orders on hand for 211 more. Barring unforeseen contingencies, the management plans to step-up production sufficiently to turn out all of these orders during 1937.

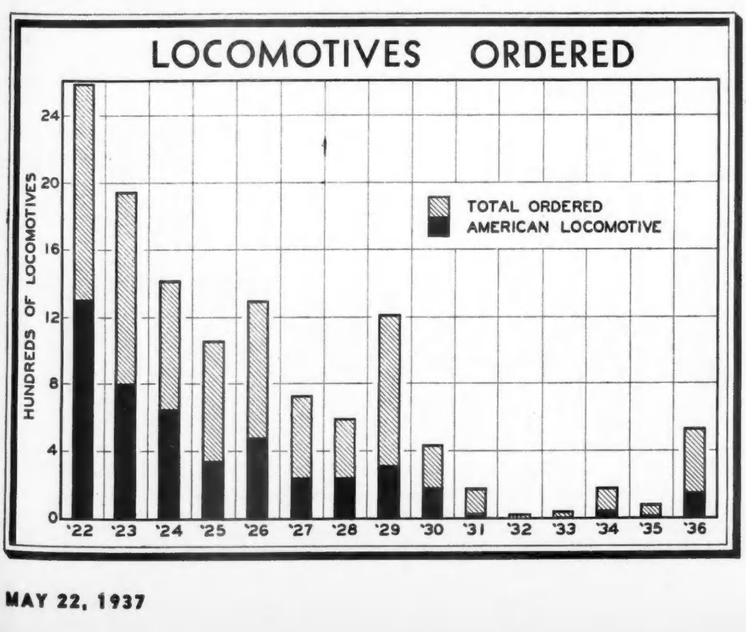
Business booked during the balance of the year will make up the backlog of orders which the company will carry into 1938. The probabilities are, moreover, that the princely era has only just begun. Given the scope of general recovery that most observers look forward to at present the company has at least several years of close-to-capacity operations at the locomotive works in sight over and above a continued although less spectacular expansion in earnings power from the non-locomotive lines to which the company has turned its attention in past years of declining locomotive demand.

American Locomotive has not made it a practice to publish figures for its annual sales volume and complete data in this regard is not available. However, "Railway Age" compiles an annual tabulation of the equipment purchases of all railroads and this is generally considered to be a reliable source of information as to the distribution of the business among the three locomotive builders from year to year. Although deliveries do not correspond exactly with the orders received in any year, this data nevertheless provides a basis for plotting the wide swings of the business of each company over a long term. From this data, it is figured that from 1901 to 1910, which was a very good era for locomotive builders, an average of about 4,000 locomotives a year were bought by the American railroads. As American was then doing roughly half of the total business its average yearly orders probably ran about 2,000 engines. This was smaller equipment than is generally built today —corresponding in size and tractive effort to about 1,000 present day locomotives. During the war, American Locomotive boasted a peak production of 125 engines a month—this high degree of efficiency being largely possible through standardization of engine design and the pressure of urgent demand for tractive power during the general speeding up of industry in war times. The

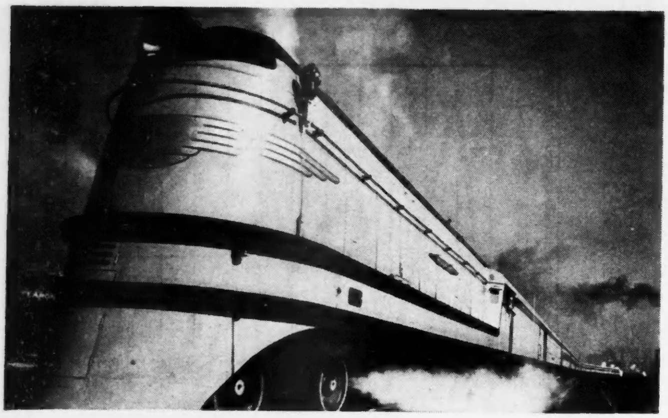


post-war peak of locomotive buying was recorded in 1922, when domestic locomotive orders totalled 2,600, and with American credited with about 40 per cent of the business its production in that year evidently exceeded a thousand units. Since 1922, the trend of railroad locomotive purchases has been downward with only two exceptions in 1926 and 1929.

These figures are mentioned to give some idea of the kind of business that American Locomotive handled in past "good times," when railroad traffic and earnings permitted the carriers to fill their equipment needs with a foremost thought to obtaining maximum efficiency in operations. The data given covers only domestic orders for steam locomotives. By way of contrast, it is to be noted that during the recent depression, American Locomotive was credited with orders for only 25 domestic steam locomotives in 1931, none in 1932, one in 1933, 45 in 1934 when two large orders were placed and then a setback to only 5 locomotives in 1935. In other words, the company received orders for 76 domestic steam locomotives in the five depression years mentioned—as many as it turned out in two and a half weeks with operations at top speed during the war.



So far we have been dealing only with numbers of locomotives, which of course is only part of story, since the locomotive built today is much larger, much heavier and much more powerful than the locomotive of ten to twenty years ago. With the same plant facilities, only about half as many present day engines could be built and when built, they would do the work of twice as many old type engines because of their ability to pull longer trains at a faster scheduled speed, in both freight and passenger service. In addition, there have been proportionately more electric and Diesel engines built in recent years and American Locomotive has been well to the fore in the development of these types of traction power. With allowance for



At top: — The crack steam streamliner "Hiawatha."

Left: — Diesel Electrics are becoming increasingly more popular in switching operations.

Below:—Pacific type 3-cylinder Freight Locomotive.

Photos courtesy American Locomotive Co.

The Schenectady, N. Y., plant of American Locomotive Co.

these factors, however, the comparisons stated give a fair picture of the extraordinary swings of locomotive construction from both extremes. They also provide a basis of measurement of the recent upturn in the business of the company and of the potentialities by way of earnings expansion for American Locomotive Co., if and when railroad buying of traction equipment attains a more normal level.

In 1936, which stands out conspicuously as the first really encouraging period since the depression, American Locomotive received orders for 147 domestic steam locomotives (not including the Montreal works of a wholly owned subsidiary) and actually completed and shipped 65 locomotives during the year. Although the company reported a net profit of around $1,156,000 for the year, this included a non-recurring item of $400,000 and originated entirely in the activities of the company outside of the locomotive business. According to President William C. Dickerman, the locomotive division operated at a loss in 1936, in spite of the improved buying and higher rate of production. This is not surprising, however, when consideration is given to the fact that the 1936 output of new locomotives was less than 10 per cent of the capacity of the Schenectady plant and the Montreal plant where the American and Canadian engine building activities are now concentrated.

During the depression years, when facilities of the locomotive plants were either thrown into complete idleness or could only be utilized to a small degree, the management intensified efforts to diversify manufacturing activities. The first steps along this line had been taken before the slump in locomotive buying became acute. Late in 1928, American Locomotive purchased Heat Transfer Products, Inc., which became the nucleus for an extensive business in the production of heat transfer equipment later taken over by Alco Products, Inc. This subsidiary manufactures various types of heat transfer equipment for petroleum refineries, public utilities, refrigeration plants, marine service and other industrial uses; fabricated steel plates for water pipes, tunnel shields, caissons, etc. With the acquisition of the Jackson Engineering Corp., in 1928, its activities in design and manufacture of heavy refining equipment for the oil and gas industries was extended considerably. Most of the entire 113 acre plant at Dunkirk, N. Y., has been diverted from production of locomotives to the manufacturing business of Alco Products, Inc.

During 1929, American Locomotive acquired 97 per cent of the capital stock of McIntosh & Seymour Corp., which owned the world's largest plant devoted exclusively to the manufacture of Diesel engines at Auburn, N. Y. The first successful Diesel switching engine in the United States was bought by the Central Railroad of New Jersey in 1925, American Locomotive furnishing the mechanical equipment. It subse-

quently co-operated closely with General Electric, Westinghouse and Ingersoll-Rand in the development of various types of Diesel-electric locomotives. The acquisition of the old and well established McIntosh & Seymour concern was influenced by desire to keep in the front rank of Diesel Locomotive progress.

A large business in heavy duty stationary and marine Diesels further diversified the activities of the company, however, and this subsidiary recently has been fully absorbed and now operates as the Diesel Engine Division, with headquarters at the Auburn plant. Other expansion of the company has been more directly related to the railroad equipment field, including steel wheels, steel tires and steel springs for both locomotive and railway cars. The replacement demand is an important factor in these divisions, however, and consequently these activities have had somewhat more stability than the construction of new locomotives.

The American locomotive construction is now concentrated at the Schenectady plant, the Richmond works having been shut down because of conditions during the depression and the Dunkirk plant having been largely diverted to the manufacturing activities of Alco Products, as discussed above. In Canada, locomotive production is concentrated at the 66 acre Montreal plant of the wholly owned Montreal Locomotive Works, Ltd., which also manufactures Diesel engines for oil-electric locomotives as well as for stationary and marine service. There is also a Canadian subsidiary manufacturing steel wheels and steel tires for all classes of railway service.

The estimated capacity of the Schenectady plant, considering the type and size of locomotives that the American railroads require at the present time is placed at around 800 locomotives per annum. With the removal of steel forging facilities from the Dunkirk plant, all manufacturing operations for steam, electric and Diesel engines are now centered at the Schenectady works, which has been maintained in good physical shape and can be counted upon for efficient and economical production as the company's volume of business in this division expands along lines presently indicated.

On the basis of comparative figures for locomotive orders in recent years, it would appear quite probable that 1937 operations of the locomotive division will approach that of 1930, the last year before the depression that the company's business was still on a profitable basis. How nearly 1937 earnings will approach the $3,778,000 net profits realized 1930, however, is still largely conjecture this early in the year, since the actual plant set up has been substantially altered in the intervening six years. Demand for new locomotives was falling rapidly in 1930, and operations for the full year were reported to have been only 20 per cent of plant capacity. The diversion of the Dunkirk plant for other purposes then had only begun, however, and in the meantime operations were suspended at the Richmond locomotive plant. Both plants could be re-equipped for assembly of locomotives if necessary, but the company can handle a considerably expanded business at the Schenectady Works and on a more efficient basis than in former years.

The possibility of utilizing full capacity of present locomotive plant appears to be a pertinent consideration in appraising the present prospects of American Locomotive Co. Many observers believe that, given a continuation of general business recovery, the American railroads will have to order 2,000 locomotives a year to modernize rolling stock completely and attain the maximum of operating efficiency. The latest data indicates about 43,725 locomotives on line, of which less than 20 per cent are truly modern and almost half are considered wholly obsolete for the present day traction requirements of the railroads. Only 36,645 locomotives are rated as serviceable and of these 2,156 are rated as stored. In the past the roads had a margin of around 10,000 stored locomotives. The present margin is a fair indication of the existing urgency for new equipment to handle a presently increasing volume of freight shipments.

Numerous examples might be mentioned of the large return which railroads have been able to realize from investments in modern efficient locomotives. One of the most striking illustrations is seen in the experience of Lehigh Valley on an investment of around $2,340,000 in new locomotives in 1932. These engines were a specially designed type for fast freight service between the Niagara frontier and tidewater at Jersey City. In fuel savings, service, speeding up of schedules, etc., Lehigh Valley calculates an annual saving of approximately $900,000 a year or a return of 38 per cent on this investment. Throwing off the lethargy, partly induced by the abnormal traffic volume and near financial paralysis during the depression, the railroads are now fighting competitive mediums of transportation with fire in their eye. High speed scheduled freight runs now are common practice and shippers are now being solicited with the appeal of speed as well as safety, both requiring modern locomotion. The greater operating efficiency promoted by such equipment (*Please turn to page 192*)

Developments Worth Noting

BY STEWART M. GRANGE

Talk of a rampant boom has temporarily evaporated, while attention turns to the question of how far intermediate reaction in commodity prices and stocks is likely to go. At Washington, however, our credit control authorities are still "boom conscious." When the markets turn around again and renew the advance, the Reserve Board and the S E C will be watching with a wary eye. They are determined to prevent, if possible, an unsound boom and its aftermath of terrific collapse. Yet the factual evidence strongly suggests that we are nowhere near a dangerous boom. As the accompanying chart shows, industrial production is still well under the level of the 1923-1925 period, even without allowing for growth of population during the past thirteen years. Output of goods is the backbone of the national income and our living standard—and is still in an area of serious depression. The New Deal will never deliver "the more abundant life" to the common man unless production not only recovers to the 1929 level but goes on to a new high, as it always has done after former depressions. This can be done without excess of speculation in securities or commodities and without any strain whatever on our credit resources. We have a far larger credit base than ever before, yet the New Deal seems fearful of its use. Commercial loans are little more than half what they were in 1929. Security loans are little more than a third of the 1929 total and, indeed, are virtually at the depression low. In perspective it is easy to see that in the 1923-1929 boom we went wrong neither on industrial production nor speculation in commodities, but on speculation in stocks and real estate. It was in these two fields, and especially stocks, that the credit boom and collapse had its heart. Neither element of weakness is present today and neither is likely to recur. Meanwhile, as Leonard Ayres has aptly remarked, the New Deal stands in considerable danger of "locking the barn doors before the family horse has even been acquired." We may be living in a new age. Things may be different today—but one thing has not changed: We can not raise the living standard of our people without going forward confidently to the greatest production in our history.

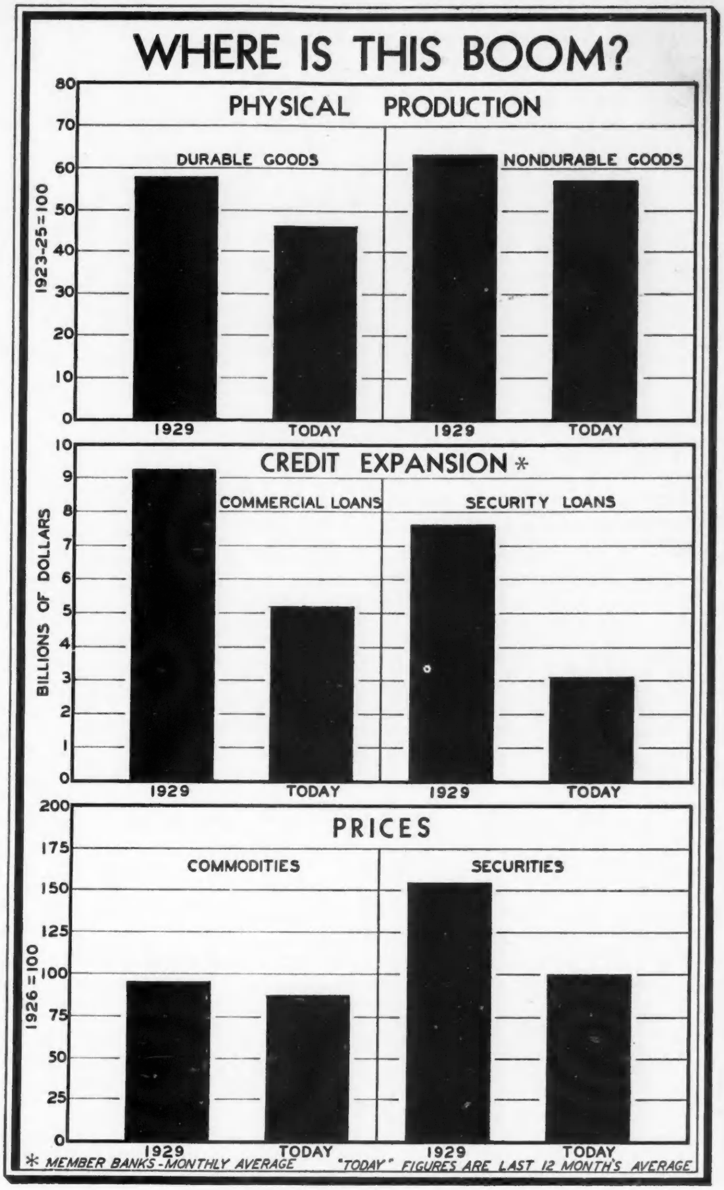
Borrowing to Spend

The vast authority of central governments gives them a great prestige with the people and an enormous power of example. Uncle Sam's chronic deficits in the midst of returning prosperity, are partly the result of themselves, so to speak. Borrowed money, is proverbially easy to spend, particularly when it is easy to get. Your Uncle is quickly reaching the limit of his borrowing capacity, because John Taxpayer is getting to the bottom of his pocket book. But Uncle has so long been spending easily acquired borrowed money—spending other people's earnings—that he finds it difficult to return to thrifty financing, and his loyal people have examined his ways, and find them good. If Uncle prefers to borrow, as now, in order to pay his debts, even though he has the requisite cash on hand, why should it not be easy for them to go and do likewise? So, while in a big way the famous gentleman of the red and white striped trousers is grandly giving his bonds, instead of his cash to pay his bills, his admiring children are doing business with the finance companies and the three-ball men to meet their modest obligations. The old philosophy of enrichment by the incurrence of debt is promptly raising its head again. Not the least of the social debits of the depression and the manner of its meeting is the corruption of financial morals, both politically and individually. For years and years to come we will be under the temptation of the multitudinous precedents of high degree to seek happiness and contentment in the fascination of red ink accounting.

Farming Returns to Its Own

The agricultural statistical sharps have got it all figured out that the farmers are going to stick a fat roll of greenbacks amounting to 10 billion dollars into their bright new blue jeans this year, 1937. This compares with something like 15 billion dollars of farm income in an abnormally good year back in war times, when high prices and high crop yields happened together. That is what is happening again this year, although prices and yields are not quite what they were in the gorgeous 'teens. Cash income of the farmer, including Government benefits, was 1.93 billion in the first quarter, an increase of 23 per cent over first quarter of 1936; 707 million of cash income received in March was within 22 million of amount received in the same period of 1929. The national producers and distributors of goods know that like the proverbial coal heaver, the farmer is an addict to "easy-come, easy-go." He has in reality to

work so terribly hard for his reward, even in the best of times, that he finds that he must get all the kick he can out of the bit of luxury that comes to him now and again, so the shrewd students of the national merchandising field are mapping a fall merchandising campaign that devotes particular attention to the eleven million people that live on the farms, and the 25 million people that live in the villages and towns of 5,000 people and less, but at their utmost spendthriftness, the farmer, en masse, has pretty sticky fingers. Remnants of his large income this year will stay with him longer than with city people. Hang-over prosperity from 1937's fat income may be expected to persist in rural regions.



Shortage of Labor Handicaps Industry

A distinguished journalist and economist, George E. Sokolsky, has recently observed for himself what many humbler Americans, north, east, south and west, have long observed.

Large numbers of men still haunt the relief rolls because, partly they and others, find that their habitual malingering has actually made it an economic error, selfishly speaking, to go back to work because men in large numbers have worked at fake jobs, making a bluff at paying their own dole. Public expenditures and consequent taxes have gone up to such an extent that the workers on relief now realize that they cannot afford to return to work. Actually their own relief has become an absurdity to them as taxpayers. This is so, not because relief is not needed at the moment, but because of the way in which it is given and because many men will not do good work on rational hours and at endurable wages. They simply do not, and perhaps will not pay for their own keep, although it is obvious that in these waxing prosperous times, they can easily be an asset to the community, instead of a liability.

On a visit to Erie, Pennsylvania, where he was studying that interesting social insect, the communist who is laboring with might and main to destroy the one economic structure in the world—the United States, as at present constituted, that gives the laboring man anything like a square deal (which, after all, is a deal that is not new in the United States of America), Mr. Sokolsky found that there were 19,300 men and women wage earners in 1929, now there are 20,800, and yet the payroll in 1929 was $1,946,762; 1937, $1,859,735. "More persons," Mr. Sokolsky observes, "are actually employed in 1937 than were in 1929. The difference between persons employed and the payroll arises from the fact that in 1929 the men worked 50 to 55 hours a week, while in 1937 they work 42 hours a week." That is to say in 1929 these men pulled their own weight or better, now they don't pull it, and at the same time they have to support, as taxpayers and consumers, directly or indirectly, the burden of their self-made deficit.

This is not the only reminder of the crooked economic thinking that the communist economists have succeeded in introducing in wide zones of thought and action. Reports from many sources reveal beyond question that the restraints imposed by organized labor upon the training or the number and requirements of apprentices is resulting in the strangling of reviving industry through lack of skilled workers. Jobs for both skilled and unskilled go unfilled because there are none to respond to the appeals of employers for the skilled, while the unskilled dumbly confront the empty jobs for their kind. Not long since, men could not work because nobody wanted them. Now some men cannot work because others are not permitted to work by the rules of their own fellows.

Ups and Downs in Movietown

BY C. F. MORGAN

CURIOSITY, says the old adage, killed the cat, but modern industrial curiosity has brought to light many useful and profitable wonders; among them the motion picture. And when in recent weeks motion picture securities betrayed a weakness and prices dived sharply without cause apparent above the commercial horizon, those holders whose strong boxes hold nicely engraved evidences of ownership in Columbia, Metro-Goldwyn-Mayer, Paramount, Warner Brothers, etc., naturally evinced some curiosity. Why? they want to know. So let us look behind the silver screen for a little.

To begin with, as has been mentioned in these columns on several occasions, the motion picture industry possesses certain advantages which make it partially invulnerable to cycles of economic change, and certain disadvantages which tend to lay it more widely open than other industries to certain forms of trouble.

In the three years that have passed the income of the industry has lifted steadily, due in part to normal recovery processes and in greater part to far better pictures than the industry has ever produced. But, as a result of what seems to be a law in such matters, with better conditions comes greater dissatisfaction, not only on the part of those inside the industry, but to those outside, and both groups spell menace. As this is being written the industry is undergoing a mild attack of labor dispute. The argument is the old one of a demand for recognition of the unionized crafts engaged in motion picture production and there are some twenty-five of these. The attack is comparatively mild because a group of five crafts have a new agreement which guarantees them closed shop and higher wages, and by the new agreement they are debarred from active participation in the demands of the non-agreement crafts who want the same arrangement.

Fairchild Aerial Surveys

"Movietown," the Capitol of the Industry

On April 4 in New York City conferees representing studios and certain labor crafts met and agreed first to continue the basic agreement between the studios on the one hand and the carpenters, electrical workers, teamsters, etc., and the organized projectionists, and second that there should be a 10% raise in wages for the ensuing year. The actors and the painters tried to get in on the agreement and were refused.

Then the Supreme Court ratified the Wagner Act and everything took on a new complexion.

The painters had been party to the basic agreement until 1932 when they withdrew because of peeve. Since then they have tried to get back in and bring the make-up artists and hair dressers with them, but the studios couldn't see how a hair dresser has anything in common with the fellow who sprayed paint with an air gun. The painters were told they could come back if they left the make-up and hairdressing crafts outside the door.

Then the argument was transferred to Hollywood and between adjournment and the Hollywood meeting the Supreme Court stepped in. Almost immediately the presiding genius of painters, Charles Lessing, organized the painters and some other disaffected groups who wanted affiliation with the Federated Motion Picture Crafts and pulled a strike—of painters. They had depended on the actors, too, but the actors didn't seem to care much for the society they found themselves in and organized a threat of their own. Promptly the studios agreed to grant certain essential demands and the actors didn't strike. In fact no one but a few timid producers ever thought they would. Now the Federated Crafts are down to three unions; the American Federation of Labor won't support them and the barbers have claimed the make-up artists and the hairdressers. So, whether the painters, trying desperately to save their face, realize it or not they are left "holding the bag."

Movie Hits—Recent and Prospective of the "Big Eight"

Company	Recent Box Office "Champions"	Coming "White Hopes"
R. K. O.	Rainbow on the River	Shall We Dance?
	That Girl from Paris	The Soldier and the Lady
	Winterset	The Toast of New York
Columbia	Theodora Goes Wild	Lost Horizons
	Pennies from Heaven	The Man Who Won the War
	When You're in Love	and a special musical production
Universal	Top of the Town	Wings Over Honolulu
	When Love is Young	100 Men and a Girl
	Three Smart Girls	The Road Back
United Artists	A Star is Born	Women Chases Man
	The Garden of Allah	Gone With the Wind
	History is Made at Night	"I" Claudius
Paramount	Waikiki Wedding	Souls at Sea
	The Plainsman	High, Wide and Handsome
	The Big Broadcast of 1937	Angel
20th Century-Fox	On the Avenue	Slave Ship
	1 in a 1,000,000	Sing and Be Happy
	Wake Up and Live	Wee Willie Winkie
Warner Bros.	God's Country and the Woman	Prince and the Pauper
	Green Light	Ever Since Eve
	Marked Woman	The Deep South
Metro-Goldwyn-Mayer	Maytime	Captains Courageous
	Camille	Parnell
	After the Thin Man	A Day at the Races

Now we come to another buzz-fly.

Quite a few years back Marcus Loew evolved a principle of trade. Having a large number of theaters which needed motion pictures, he purchased a producing company to protect their needs. Out of that purchase grew M-G-M. And Adolph Zukor, former associate of Mr. Loew in the fur business, who was at the head of—as it was then—Famous Players Pictures Company—applied reverse English to Mr. Loew's principle and acquired a flock of theaters to protect his production interests. (Prior to these things, as in most industries, manufacture was one thing, retail sales another.) And now was laid beside the warming cinema fire a neat little bundle of fat, most interesting in its possibilities, for other production companies—Fox, Warner, Universal, United Artists—went and protected themselves likewise. Today close to 4,000 of the best and biggest picture theaters in the country are in the big company chains, with eight or nine thousand little ones outside. And it is conceded that the chain affiliates do more than 55 per cent of the total business of all the picture theaters. To apply another old proverb; the big producers, by their theater ownership, have given hostage to fortune.

Los Angeles is regarded, industrially, as the last stand of the open shop principle. Yet in the very middle of this principle stands the great motion picture industry, slowly but surely being unionized into a closed shop. Normally the picture business would remain open shop, but the union affiliation at present has those hostages in the form of the theaters. And like it or not, the projectionists union grips the motion picture theaters of the country in its hairy fist. So now we have this potentiality: A craft essential to the studios in Los Angeles and duly affiliated with a parent labor organization to which the projectionists also belong, gets into a wrangle with the studios and a strike is called. This craft, incidentally, is not one in the agreement. The studios decline to meet the demands and then we have the sympathy of the projectionists for brother craftsmen expressed in a general walkout or refusal to project the pictures of the studios involved!

In an ordinary industry sinking funds usually are set up—or we may call them reserves—to cover certain unknown eventualities, but the picture business apparently has never done this. It lives from hand to mouth; from theater box office to production studio. If this stream of revenue is interrupted for one or two weeks the studios feel the pinch and in a month of no income may not meet payrolls. There is no suitable reservoir in between to take up ebb and flow and that, this commentator believes, is one of the dangers of the business.

The next problem is potentially and actually almost as serious, save that in this case sheer waste is the issue. Let us use the harmless but necessary typewriter ribbon as an example: Let us say that in your own office a typewriter ribbon lasts one month before its impressions become faint. But suppose your office manager arbitrarily insists on throwing the ribbon away at the end of ten days or two weeks, while there is still plenty of use in it. Well, just that situation exists in the motion picture business. It works this way:

The Jewel Theater in Whatsburg buys the output of such and such a studio. The new picture goes on the screen on Monday and runs until Wednesday night when it is automatically replaced by a newer offering, not because its pulling power is exhausted, but because the exhibitor believes that "his patrons" want a new picture so they can patronize him twice a week, and he is sure that if they can't visit his theater twice a week they will sit at home and mope. Which, of course, is pure poppycock. Motion *(Please turn to page 194)*

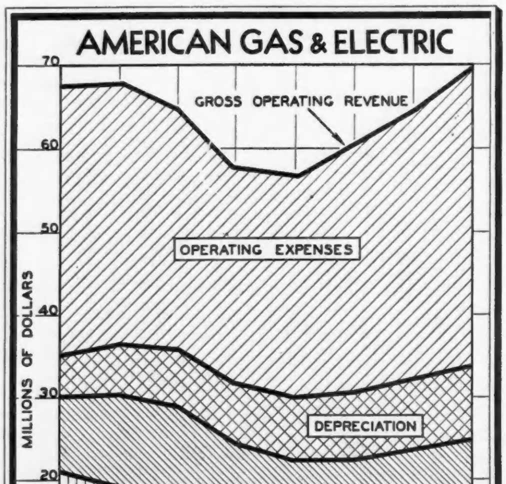
Conservatively Capitalized and Managed

Higher Earnings in Prospect

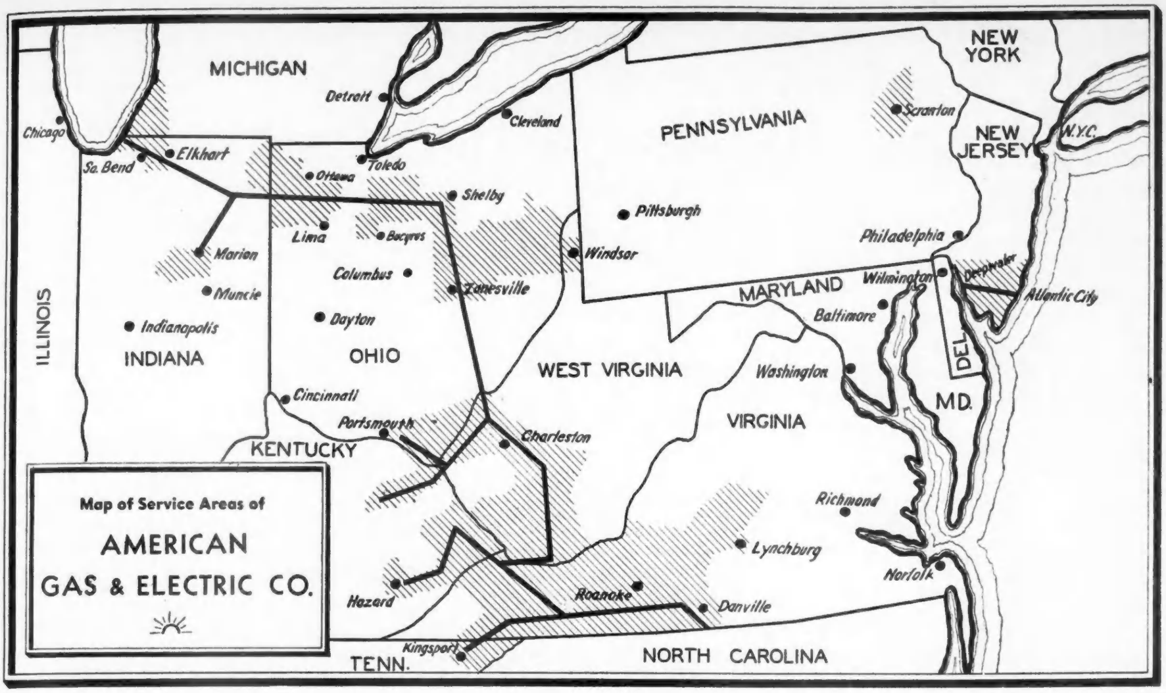
BY FRANCIS C. FULLERTON

There are holding companies and holding companies, and, although it is sometimes difficult to draw the line between the sound and the unsound, it is characteristic of the better ones that they have not run the holding company idea into the ground, that operating properties are not overly scattered, that they do not bolster their own financial position by borrowing money from their subsidiaries and that they do not charge their subsidiaries fees for "supervision." By these standards American Gas & Electric belongs decidedly in the sounder group.

By means of a holding company pyramid it is possible theoretically for an investment of a thousand dollars (or less) to control every public utility company in the country. Looking at the capital structure of some of these companies, it would seem that this is just exactly what they proposed to do. The American Gas & Electric Co., however, has always had a real equity in the earnings of its operating subsidiaries: the securities of this holding company were never so weighted with "leverage" that a mere touch of adversity to the operating properties would reduce its securities to no value at all. Never, even during the worst of the depression, were the earnings of the American Gas & Electric system less than the equivalent of $1.66 a share on the common stock of the American Gas & Electric Co. and, so far as cash dividends are concerned, $1 a share annually was paid without interruption from 1926 to 1934, inclusive. In 1935 half as much again was distributed, while last year there was a slight reduction to $1.40 a share. Admittedly it had been the company's custom to pay dividends in stock as well as cash and that the former were eliminated in 1935, nevertheless it is something of an achievement that a public utility holding company was able to maintain throughout the depression the cash dividends to which its stockholders had grown accustomed during the years that were boom times for the utility business.



It was said to be characteristic of the sounder public utility holding companies that their operating properties are not too scattered: this was meant in the sense that there is greater economic justification for, and therefore greater soundness in, a utility system which is reasonably well integrated. The American Gas & Electric Co. meets this point fairly well and with some revision could be made to meet it completely. The principal properties are in the states of Michigan, Indiana, Ohio, Kentucky, Virginia and West Virginia and they are all interconnected with transmission lines. In addition, however, the company controls two isolated properties, one in the south of New Jersey serving Atlantic City and one in Pennsylvania serving Scranton and Wilkes-Barre. The Public Utilities Act gives the Securities & Exchange Commission broad powers of discretion in connection with the life and death of holding companies and, although it might frown



upon the isolated properties of American Gas & Electric, it may well be supposed that it would regard favorably the major, integrated portion of the system. Thus it would seem that the company has less to fear than most from Federal regulation.

Before passing from the political aspects of the public utility question, it might be well to define the status of the American Gas & Electric Co. in regard to Governmental competition, for some of the company's properties lie in the sphere of influence of the Tennessee Valley Authority. Fortunately, in this particular case the threat to private capital does not appear to be a particularly grave one. In the first place, American Gas & Electric is not vitally involved in the area within which it is possible to transmit economically power from the Tennessee River. In the second place any properties that might be affected in theory are the less likely to be so in actuality because of their admitted efficiency and their already low rate structures.

The capitalization of the American Gas & Electric Co. is among its most interesting features. One frequently finds in companies of this kind that its own debentures and preferred stocks rest on nothing firmer than the common stocks of the operating subsidiaries, or even on the common stock of an intermediate holding company. In this case, however, the holding company owns not only all the outstanding common stock of its affiliates but owns in addition a substantial amount of their senior securities. The total outstanding funded debt of subsidiaries is in the neighborhood of $200,000,000 and of this the American Gas & Electric Co. owns roughly $60,000,000. Of the subsidiary preferred stocks outstanding the public holds something less than $50,000,000 face value, while the company holds nearly $30,000,000 face value.

Let us turn now to the capitalization of the parent company itself: the first claim is held by the owners of the $40,000,000 5% debentures of 2028. Prior to December, last, there were $50,000,000 of these debentures outstanding but, following financing on the part of a subsidiary which resulted in American Gas disposing of certain securities and being reimbursed for advances made previously, a financial position already strong became such that it was decided to retire $10,000,000 of the parent company's debentures. Following the debentures, there are some 356,000 shares of $6 preferred stock outstanding. In order to service its own funded debt and pay dividends on its own preferred, the American Gas & Electric Co. requires something in excess of $4,000,000 annually. On its holdings of bonds and preferred stocks of subsidiaries the income is about $5,000,000 annually and, hence, the senior obligations of the holding company are backed in effect not by common stocks at all but by bonds and preferreds of operating (or near operating) companies.

The whole capital set-up of the American Gas & Electric system is conducive to large scale refinancing and reshuffling operations which would certainly react to the benefit of the parent company's stockholders. The average coupon carried by the funded debt of subsidiaries is better than 5%, while the dividends paid by none of the subsidiary preferreds is less than 6% and for a substantial portion of them it is as much as 7%. Refinancing, however, is being held up by lawsuits and the general uncertainty which has been generated by the Public Utility Act. Nevertheless, the present difficulties will be ironed out sooner or later and, when they are, it is to be expected that there will be drastic changes made in the financial structure of the American Gas & Electric system. Owning as it does all the common stock of its subsidiaries, once in a position to finance freely it is not inconceivable that American Gas & Electric might actually merge some of its operating properties, simplify its make-up and *(Please turn to page 186)*

Stock Opportunities Created by Recent Reaction

Selected by THE MAGAZINE OF WALL STREET STAFF

Anaconda Copper Mining Co.

The earnings of Anaconda Copper Mining Co. in the first quarter of this year were the best for that period in eight years. Net income of $8,537,100 was equivalent, after interest, depreciation and other charges, to 98 cents a share on the 8,674,338 shares of capital stock. Per-share earnings would have been increased about 10 cents in the first three months had the company's equity in undistributed earnings of subsidiaries been included. The foregoing earnings represent business booked in the final quarter of 1936 when copper prices averaged slightly over 10 cents a pound. Average prices for copper in the first three months of this year were estimated at somewhat better than 12 cents a pound, on the average.

Anaconda Copper is the largest single factor in the copper industry, with important producing properties located both in this country and in foreign fields. Domestic producing properties located near Butte, Montana, are equipped for the production of approximately 360,000,000 pounds of copper per annum. This is inadequate, however, to fully meet copper requirements of the company's fabricating subsidiaries. The latter include American Brass Co. and the Anaconda Wire & Cable Co., both of which contribute substantially to profits under normal industrial conditions. The company's principal foreign sources of copper production include the Chile Copper mine and plant with an annual capacity of about 450,000,000 pounds of copper, the Andes Copper mine with about 230,000,000 pounds production and the Greene Cananea Copper property in Mexico with about 100,000,000 pounds production capacity. Foreign mining operations were curtailed by agreement among foreign producers until the latter part of 1936, when the agreement was virtually abandoned. The company's Mexican properties were closed for about two and one-half months last year due to labor difficulties. Despite these restrictions, the company's 1936 net income rose 42% above 1935 on an increase of 26% in gross sales and earnings. Net income was equal to $1.83 per share, as compared with $1.29 per share earned in 1935. Dividends paid on the stock last year totalled $1.25 per share.

This year earnings should more fully reflect the increased production and higher prices. While copper prices have receded about 3 cents from their previous high this year, the present 14-cent level would appear to have gone a considerable distance toward correcting the over-bought position of the metal. Further, copper is favored by an exceptionally strong trade position; world stocks are the lowest in many years and it is expected that principal consuming outlets will enlarge their takings this year.

In the case of a company so large and with as many extensive and complex ramifications, it is difficult to make any reasonable estimate of earnings. It is a safe conclusion, however, that Anaconda is well situated to participate in the improved outlook for the copper industry as a whole, a prospect which appears conservatively appraised by recent quotations for the shares of **around 50.**

Illinois Central Railroad

Reflecting an increase of about $17,500,000 in operating revenues, accompanied by a substantial reduction in maintenance outlays, operating income of Illinois Central in 1936 increased about $10,400,000 to over $17,000,000, and in place of a deficit of nearly $10,000,000 suffered in 1935, the road earned fixed charges in full by a margin of $765,000. The latter figure was equal to better than $4 a share on the 6% preferred stock. The showing of the road last year was the best since 1930.

In applying recently for a $10,000,000 loan from the R F C, the management of Illinois Central forecast 1937 income of $2,684,699, which would compare with 1936 net income of $764,743. Moreover, these estimates give effect to a charge against income of $2,024,300 under the Retirement Act of 1935. The constitutionality of this Act is being contested, and should it be declared unconstitutional the road's estimated income after charges would be increased to $4,709,000.

Notwithstanding the severe flood losses suffered by

the road earlier this year, a substantial gain in March traffic raised net operating income for the first quarter to about $3,000,000, with the loss after all charges placed at about $975,000. In the corresponding period of 1936, the net loss after all charges was $874,000 and net operating income was $3,260,000.

The Illinois Central provides the shortest traffic route from the Great Lakes to the Gulf, and among important cities served are Chicago, New Orleans, Indianapolis, Louisville, St. Louis, Memphis, Birmingham and Vicksburg. This territory provides the road with an exceptionally broad diversification of traffic. Funded debt of the Illinois Central System amounts to about $378,000,000 and comprises about 70% of the total capitalization. Ahead of the 1,357,995 shares of common stock are 186,457 shares of non-cumulative 6% preferred stock. The capital structure of the road is such that the common stock has a high leverage factor, indicating the possibility of a substantial gain in per-share earnings, with the benefit of only a comparatively modest gain in traffic and revenues. Financial position of the road has improved and since 1930 current liabilities have been reduced more than $13,000,000.

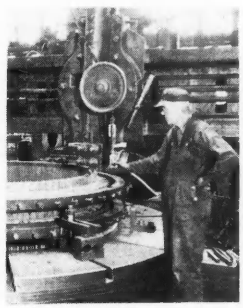
The Illinois Central is well situated to participate in the mounting industrial recovery throughout the territory served and the company's shares, currently quoted around 30, merit favorable consideration for speculative funds.

Youngstown Sheet & Tube

The effect of double-barrelled leverage inherent in the production set-up and capitalization of the average steel company dependent upon demand for heavy steels is graphically portrayed in the recent earnings performance of Youngstown Sheet & Tube. In 1935, this company reported earnings equivalent to $10.65 per share on 150,000 shares of $5.50 preferred and 64 cents on the then outstanding 1,200,000 shares of common. Last year, through the benefit of a 47% gain in sales, net profit skyrocketed to $10,564,501, equal, after preferred dividends, to $7.03 a share on 1,384,752 shares of common stock. In the first quarter of the current year, the increase in earnings was even more vigorous and net of $4,886,019 recorded a gain of 158% over the corresponding period of 1936, and was the best showing for that period made by the company since 1929. On the basis of this showing, and even allowing for some later slowing up in the rate of steel activity, guessing the company's earning power at around $9 to $10 per share does not appear to be an excessively optimistic appraisal of current prospects.

Youngstown Sheet & Tube Co. is one of the largest of the so-called independent steel units. In recent years the management has pursued an aggressive program of property expansion, solidifying the company's position as the fifth largest producer of steel, and diversifying output and capacity to include a larger output of light steel products.

Last year, all accumulated dividends on the preferred shares were eliminated and the regular $5.50 rate is now being paid; and dividends on the common were resumed this year for the first time since 1931 with an initial declaration of 75 cents a share. Out of the original $30,000,000 issue of 3½% convertible debentures, $24,198,000 have been converted into 387,184 shares of common stock, $290,000 have been redeemed for cash, leaving $5,512,000 debentures outstanding and a total of 1,587,184 common shares issued. Probabilities are that complete conversion will be effected within another two or three months. Thereafter funded debt will consist of only $61,500,000 4% first mortgage bonds due in 1961. Resulting savings in fixed charges will amount to about $2,000,000 annually, or about $1.15 per share on the 1,676,000 shares that will be outstanding when bond conversion is completed. Selling at 85, the shares are a promising candidate, offering well founded possibilities for price appreciation and increasing dividend returns.



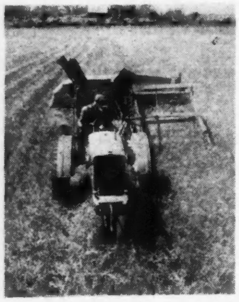
General Electric Co.

The report of General Electric Co. for last year was the best since 1930. Net income amounted to $43,947,000, after depreciation, interest and taxes, or the equivalent of $1.52 a share on 28,845,927 shares of common stock outstanding. For 1935, General Electric's earnings were equal to only 97 cents a share of common. Emphasis was given to the good showing for last year by the declaration of a 40-cent dividend earlier this year, the quarterly payments having previously been maintained at 25 cents, augmented by a 50-cent extra at the end of last year.

New business booked by the company in the first three months of 1937 was the largest for that period in the company's history. Total orders received in the first three months of this year were $105,747,000, compared with $59,569,879 in the corresponding period of last year, an increase of 78%. Business booked by the company in the first quarter of 1929 amounted to $101,365,208. Earnings likewise gained appreciably in the first quarter of this year. Net income of $11,626,408 was equal to 40 cents a share on the common, as against 25 cents in the comparable period of last year. The rising volume of business has permitted the company to widen its margin of profit and the profit of $9,375,421 on billings of $73,412,420 in the first three months this year was equal to 12.77%, the best margin since the first quarter of 1931 when net was equal to 13.24% of billings. Considerable significance attaches to the fact that the sales being billed by the company are lagging behind orders received, indicating that a larger proportion of new business is for the heavier type of equipment, such as generators, turbines

and their like. This development is highly favorable. Meanwhile, demand for the lighter types of equipment, particularly electrical appliances for use in the home, shows no signs of diminishing.

The shares of General Electric customarily sell at an unusually high ratio to earnings. Considerable justification for this characteristic, however, may be found in the company's excellent record, even under adverse conditions, as well as the broad opportunity which it has to share generously in the further extension of general business recovery. The shares, accordingly, combine investment merit with well substantiated possibilities for longer term price appreciation. Recent price, 50.



Allis-Chalmers Mfg. Co.

The shares of Allis-Chalmers Mfg. Co. are quoted some 20 points below the high level attained earlier this year, a greater decline than has occurred in the market as a whole. Yet this condition has not been the result of any adverse change in the very promising outlook faced by the company at the beginning of the year. It is true, of course, that the shares, at their previous high, were quoted at a generous ratio to earnings, but this is not unusual in the group with which the shares of Allis-Chalmers are identified. The probabilities are, however, that the decline can be largely accounted for by factors more or less technical in nature.

Last year $15,000,000 of the company's 4% debentures were converted into common stock, resulting in an increase from 1,344,394 shares to 1,769,367 shares outstanding. More recently the company has announced its intention of giving common shareholders the privilege of subscribing to 161,000 shares of new convertible preferred stock, suggesting that ultimately there will be a further increase in the number of common shares outstanding. Last year the company's net sales increased over $20,000,000 and net income of $4,014,112 compared with $1,985,137. Owing, however, to the larger number of shares outstanding, per-share results of $2.27 in 1936, as compared with $1.47 in 1935, fell below previous expectations. Last year the company paid out $2,343,776 in aggregate dividends, equal to $1.50 a share, and paid a Federal surtax on undistributed profits of $650,000. As a consequence liquid resources were depleted and current assets of nearly $39,000,000 at the close of last year included only about $1,350,000 in cash and marketable securities. Current liabilities were $11,265,983. At the end of 1936, unfilled orders amounted to nearly $14,000,000, as compared with about $7,500,000 at the close of the previous year. Moreover, the company's farm implement and tractor business has continued to expand rapidly, creating a heavy demand for liquid working capital. Funds which will be derived from the sale of new preferred stock will be used not only to bolster working capital but for expansion of manufacturing facilities in the company's farm implement and tractor divisions. In the long run, therefore, it would appear that the same developments which may be held responsible for the decline in the shares will redound to the benefit of stockholders.

Allis-Chalmers is a prominent factor in three important fields, electrical equipment, industrial machinery and farm equipment. All of these divisions contributed a larger volume of business and earnings last year and, barring a more serious slump in general business than now seems likely, have an excellent chance of recovering substantially all of the ground lost during the depression. Reliable estimates place first quarter earnings at between 75 cents and 80 cents a share and the anticipated results for the second quarter should raise earnings in the neighborhood of $2 a share for the first six months of this year. On the whole, therefore, present levels at which the shares are selling, around 60, would appear to present an attractive opportunity to acquire broad representation in the durable goods group.

U. S. Rubber Co.

Coincident with the high measure of competitive stability which has been achieved by the rubber industry, as a whole, there has occurred a marked improvement in the affairs of U. S. Rubber. Last year, a 25% increase in sales volume, higher prices and a sizable reduction in fixed charges enabled the company to report net income of $10,172,484, equal after allowing for dividend requirements on the 8% non-cumulative preferred stock to $3.31 a share on 1,497,531 shares of common stock outstanding at the end of the year. In 1935, net income of $6,532,237 was equivalent to 90 cents a share. In addition, the company's plantation subsidiary reported a profit of $1,913,790, comparing with a net profit of $967,695 in 1935. Since 1931 outstanding funded debt of U. S. Rubber has been reduced more than $40,000,000 to $53,233,700, and at the end of last year current assets, including nearly $13,000,000 in cash and marketable securities, amounted to $80,646,727, while current liabilities were $23,693,401.

Sales and earnings have maintained an upward trend in the current year; tire prices have been advanced twice; and sales of rubber footwear, mechanical rubber goods and other items, on which profit margins are wider, have likewise recorded good gains. Until recently, it was expected that tire prices would again be advanced, but any action in this respect seems likely to be postponed as a result of the recent decline in crude rubber prices.

The two advances in tire prices made earlier in the year will probably prove sufficient to compensate fully for the increased cost of raw materials and higher wages now in effect. The rate of sales gain will doubtless show some slowing up in subsequent months, inasmuch as dealers previously bought ahead in anticipation of higher prices. For the year as a whole, U. S. Rubber may show

as much as $5 a share, exclusive of subsidiary earnings.

Despite the marked improvement in earnings, neither preferred nor common dividends are likely to be resumed in the near future. The management is desirous of further restoring the company's finances, before paying dividends, and under the terms of the indenture of the first and refunding mortgage is in a position to do so without being subject to the surplus profits tax. Viewed in relation to the company's longer term prospects, speculative commitments made in the shares of U. S. Rubber at current levels of around 55 should prove wholly profitable.

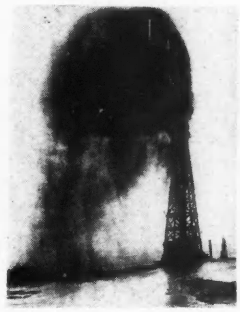
Pullman, Inc.

Activities of Pullman, Inc., subsidiaries embrace two major divisions of the railway transportation industry—the operation of Pullman cars and the construction of freight and passenger cars and buses. Stimulated by a substantial increase in passenger travel, under the inducement of reduced fares, and material improvement in railroad revenues, both branches of the company's business underwent considerable improvement last year. The combined effect of these developments was to produce a net profit for the company of $6,347,107, equal to $1.64 a share on 3,874,515 shares of capital stock. The showing last year was in marked contrast with 1935 when a net loss of $273,728 was reported.

During 1936, Pullman-Standard Car Mfg. Co., Pullman, Inc.'s, manufacturing subsidiary, booked orders for 13,800 freight cars and entered the current year with unfilled orders on its books for 8,950 units. A substantial volume of orders has been received this year, the total in the first quarter amounting to 4,572 units. Last year, however, the great bulk of the business was received in the final quarter, with the result that the contribution to earnings will be increasingly evident in the current period. During the past several years the company has been engaged in a program of modernization, including air-conditioning and other improvements, of its various passenger cars and other de luxe travelling equipment. Along with lower fares, the company, as a result, has regained considerable competitive advantage over the other mediums of transportation.

The initial quarter of the current year was the best for the company since 1930. Net profit of $3,276,699 was equal to 85 cents a share on the capital stock, comparing very favorably with the equivalent of 31 cents a share earned in the March quarter of 1936. As a consequence, profits for the twelve months to March 31, last, were equal to $2.20 a share, against 6 cents a share earned in the comparable period of 1936. Financial condition of the company is excellent, lending considerable weight to the possibility of an upward revision in the present $1.50 dividend rate. Current assets at the end of last March were in excess of $81,000,000, including $39,399,849 in cash and U. S. Government bonds, and current liabilities were $18,701,203. Plans for the current year call for the introduction of a fleet of lightweight sleeping cars as part of several crack passenger trains and an active research and engineering department may be relied on to keep the company well in the van of new transportation developments. The success which the company has had in the development of streamlined trains has made it one of the most prominent factors in this important and growing field. With reasonable assurance that those factors responsible for the improved earnings last year will be even more effective currently, the shares of Pullman, at recent levels around 58, invite favorable investment consideration as one of the more conservative media for participating in the revival of the railway equipment industry.

Amerada Corp.



The activities of Amerada Corp. are confined to a single phase of the oil industry—the extraction of crude oil. The company has been exceptionally successful in its exploration and drilling activities and on a per-share basis, Amerada's estimated proven reserves are larger than any other publicly owned company in the United States. Estimated reserves of crude oil totalling 190,000,000 barrels would be equivalent to 240 barrels per share of outstanding capital stock.

Last year Amerada's net production of crude oil amounted to 8,853,688 barrels, a daily average of 24,190, as compared with a daily average of 21,367 in 1935. At the end of the year the company had 1,066 productive oil wells, against 909 a year earlier. The average price for crude oil sold during 1936 received by Amerada was $1.07 a barrel, or 10 cents more than the average during the preceding year. A combination of increased production and higher prices resulted in earnings of $1,983,901, after depreciation, depletion, drilling costs, etc., equivalent to $2.52 a share on 788,675 shares of capital stock. A moderate gain in profits was shown in the first quarter of this year, net being equivalent to 66 cents per share, as compared with 60 cents per share in the same months of 1936. Earnings, however, are stated on a very conservative basis and the fact that the shares customarily sell at an unusually high ratio to indicated earnings, suggests that the market appraisal is more concerned with potentialities than immediate earnings. The present dividend rate of $2 annually has been in effect since 1926, but at 94, the stock obviously offers little inducement from the standpoint of income. On the other hand, the shares constitute the sole equity in a huge supply of crude oil, an asset which promises to become increasingly valuable in the future, while the current prospect of the company is favored by a larger output and a possible increase in the present level of crude oil prices.

(Please turn to page 194)

Profit Possibilities in Defaulted Rail Bonds

Reorganizations Likely to Be Speeded After Long Delay

BY MUNROE E. MARSHALL, JR.

PRACTICALLY every railroad in the United States has at one time been forced into receivership and subsequently reorganized. Some of the most highly respected railroad bonds of today originated in reorganization and the advanced investment rating which these issues enjoy reflects fully as much credit upon the foresight and realism of reorganization managers as it does upon the operating success later attained by the road. Investors who shared this foresight were handsomely rewarded.

At the present time about 30 per cent of the country's railroad mileage is in receivership. Outstanding securities of around 90 receivership roads are estimated at approximately 3¼ billion dollars. A few of these roads have been in receivership for some years but the financial difficulties of the great majority of them arose during the depression years when railroad revenues and earnings suffered the most drastic decline in the history of the industry. Many roads were compelled to suspend service on all of their funded debt, whereas in previous depressions interest on senior and underlying bond issues was for the most part maintained without interruption.

Notwithstanding the fact that numerous reorganization plans have been formulated during the past year, not a single important railroad has emerged from receivership. Considerable difficulty has been experienced in constructing suitable reorganization plans under Section 77 of the Bankruptcy Act. The recent trend of events, however, suggests that reorganizations will be speeded up and several plans involving major roads may be successfully completed this year. The I. C. C. has publicly deplored the delay and recently has refused to grant time extensions. The R F C has also manifested the hope that reorganizations would be hastened. And finally, but by no means least, there are the encouraging implications of the larger gross revenues and net income recorded by the railroad industry last year and in the early months of this year.

Last year net operating income of 15 large receivership roads increased, according to estimates, 57 per cent over 1935, as compared with an increase of 30 per cent shown by all non-receivership carriers. Practically the entire gain was scored in the final six months, reflecting traffic gains and lower maintenance outlays. It has been calculated that these 15 roads earned about 50 per cent of their present fixed charges.

During a period of receivership large sums are customarily spent for deferred maintenance and other property improvements and once the condition of the property and equipment has been substantially restored, lower maintenance charges will permit a larger percentage of gross to be carried to net operating income. The probabilities, are, therefore, that many receivership roads, with the benefit of sustained traffic this year, will be able to show a further substantial gain in the amounts available for fixed charges.

If rising earnings can be counted on to hasten the culmination of receivership, it is also possible that they will influence security holders to demand more favorable treatment in reorganization. While fair and equitable treatment is desired, it would be unfortunate if interested security owners gauged their demands by an over-

Attractive Speculations in Defaulted Rail Bonds

Issue	Amount Outstanding	Fixed Charges Times Earned 1936	1935	1937 Price Range High	Low	Recent Price
Chicago & Eastern Illinois Gen. 5s, 1951	$31,000,000	0.85	0.35	46¾	35¼	40
New Orleans, Texas & Mex. 1st Mtge. 5½s, 1954	15,800,000	0.41	0.13	62¼	51¼	60
Denver & Rio Grande Cons. 4s, 1936	34,125,000	0.32	0.45	36⅞	28¾	29
Wabash Rwy. Ref. & Gen. 5½s, 1975	12,500,000	0.83	0.71	44⅞	38	40
Chicago Great Western 1st 4s, 1959	35,500,000	1.19	0.73	51⅛	43⅜	46

optimistic appraisal of potential railroad earnings. Not only would such an attitude be likely to retard reorganization but might well lead to a repetition of financial difficulties. Most of the roads in receivership are burdened with a top-heavy load of funded debt, insupportable except perhaps during a period of abnormal business activity. Cognizance also must be taken of the fact that the railroads have lost to competing mediums a sizable volume of traffic, of which only a small portion may ever be regained.

In the circumstances a realistic viewpoint on the part of reorganization managers and security holders alike is a prime requisite, if the earning power of distressed carriers is to be restored to a profitable basis. Subject to this qualification, selected bond obligations of receivership roads offer considerable speculative promise.

Several such issues, which appear entitled to favorable treatment in any soundly conceived reorganization plan, which subsequently may be proposed and accepted, have been selected for special comment herewith.

Major Systems in Receivership

Road	Funded Debt
Chicago, Indianapolis & Louisville	$26,900,000
Chicago Great Western	41,500,000
Chicago, Milwaukee, St. Paul & Pacific	482,000,000
Chicago, Rock Island & Pacific	145,700,000
Missouri Pacific	428,000,000
Denver & Rio Grande Western	120,500,000
New Orleans, Texas & Mexico	56,300,000
New York, New Haven & Hartford	281,400,000
St. Louis-San Francisco	271,300,000
St. Louis Southwestern	79,300,000
Seaboard Air Line	157,300,000
Wabash	155,100,000
Chicago & Northwestern	339,200,000
Chicago & Eastern Illinois	35,100,000
Central of Georgia	56,600,000

Chicago & Eastern Illinois Gen. 5's 1951

These bonds outstanding in the amount of about $31,000,000 comprise nearly the entire funded debt of Chicago & Eastern Illinois Rwy. The road is predominantly a coal carrier, serving the Illinois bituminous fields. As a consequence, financial difficulties were mainly the result of a decline in the importance of the Illinois fields and the sharply reduced movement of bituminous coal during the depression. A plan of reorganization has been submitted to the I. C. C., on while a ruling is expected in the near future and under the terms of which the general mortgage 5's are to be exchanged for $500 new convertible income 5's, $500 in new $40 5% preferred and 1¾ shares of new common stock. A new 4% prior lien bond issue would be created and used to settle the principal and interest on the road's $5,760,867 loan from the R F C. The new income bonds will be convertible into 40 shares of common stock and interest will be cumulative only to the extent earned. Under the proposed plan fixed charges will be reduced nearly 40%.

Last year the road reported net earnings of $1,913,000, a substantial improvement over 1935 and sufficient to cover fixed charges and income bond interest under the proposed plan of reorganization about 1 1/3 times. In a normal year, company officials estimate that the road will gross $20,000,000, and similar estimates for the current year indicate $17,680,000, which would cover all fixed and contingent charges, preferred dividends and leave a balance for the common. Gross revenues in the first three months of this year ran ahead of last year, despite the handicap of floods and there is a good prospect of further gains in subsequent months. Selling at 40, the bonds appear to present an interesting speculative opportunity.

New Orleans, Texas & Mexico 1st Mtge. 5½'s 1954

Traffic gains scored by N. O. T. & M. in the first quarter of this year were appreciably better than the average, owing principally to the substantially larger crop of citrus fruit. Fixed charges were covered by a good margin in the current period, whereas last year net was short about 25%. Total fixed and contingent charges amounted to $3,868,501 in 1936, and of this amount 30% was earned last year as compared with only 17% in 1935. Last year the road benefited as a result of a redivision of freight rates giving Southwestern carriers are larger portion of the total revenue and various changes in traffic arrangements were also beneficial.

The 1st Mtge. 5½'s 1954 are outstanding in the amount of $15,770,000 and three other series of bonds issued under the same mortgage bring the total outstanding to $40,615,900. With a first lien on some 1,600 miles, the issue is outstanding at the rate of about $26,500 a mile, a fairly conservative figure. Two plans have been submitted for the reorganization of the Missouri Pacific and subsidiaries, which include N. O. T. & M. Under the terms of the management's plan, holders of N. O. T. & M. first mortgage bonds would receive in exchange 40% of the new consolidated road's first mortgage 4% bonds, 50% in convertible income general mortgage 5% bonds and 10% in convertible 4% income notes. The so-called Stedman plan accorded the bonds similar treatment, except that preferred stock was substituted for the convertible 4% notes. Both plans have met with opposition from the N. O. T. & M. bondholders' committee, which has expressed its intention to apply for separate reorganization unless more favorable treatment is procured. One-half of the 1933 coupons were paid last December and the court has been petitioned to permit payment of the balance. Hearings were scheduled for May 14. Favored by improving earnings and holding a prior lien position, it would appear that there is a good chance that more favorable treatment will be accorded the bonds in question and such possibility appears conservatively appraised by recent quotations around 60.

Denver & Rio Grande Cons. 4's 1936

The potential earnings rather than the road's past record provide the speculative interest in the above bonds. The road has not earned fixed charges since 1930 and last year the amount *(Please turn to page 186)*

No Clouds in This Picture

Chemical Companies Continue to Face Bright Prospects

BY PHILLIP DOBBS

SPECULATORS often remark of the chemical companies that their stocks "never get anywhere." It is true that the chemical stocks today average only about fifteen per cent above the low of last year and that other groups are presently selling for twice that for which they could have been bought during 1936. Yet, to say that the chemical stocks never get anywhere is to take the narrowest of views: they have been making progress for years and give every indication of continuing to do so. Admitting that more money could have been made recently in, for example, the papers, it is probable that no stocks have rewarded their owners more handsomely over the longer-term than the chemicals. Because the chemicals have long been operating at a high rate and have long been making money, it is only natural that their gains over a short period should fail to match those of businesses which, perhaps, are only just beginning to make any money at all.

Although we customarily speak of the chemicals as if they represented a single uniform industry comparable to the railroads and the public utilities it is obviously not so. "Chemicals" is merely a convenient heading for a group of companies, representative of almost as many industries as there are chemical products. Hence, while certain generalizations in regard to the group are valid, one must be careful not to carry these too far.

It may be said of the chemicals during a time of recovery such as that through which we are now passing that they are double-barreled participants in the better times. As suppliers of the raw materials for a thousand processes they naturally benefit from increased industrial activity. They benefit also, however, from the new products that they are constantly introducing. While these latter are possibly most important in that they help the chemicals to resist depression, it is true nevertheless that new things receive quicker acceptance when the business clouds are clearing.

It may be as was stated at the beginning of this discussion that the stocks of chemicals companies have not made particularly impressive gains from a market standpoint, but this does not alter the fact that last year the chemicals as a group did a larger volume of business than ever before in their history. Moreover, for many of them profits were the highest on record.

Because the chemical industry supplies every other industry with part of its raw material requirements and every single individual consumer in the country with some need, it is possible to mention only a few of the principal factors in the chemicals' prosperity. The textile industry, of course, has been very active and hence required additional quantities of dyestuffs, bleaching and finishing chemicals, etc. The production of rayon last year was at a new high record and huge quantities of alcohol, acetone, caustic soda and other chemicals were taken in addition to the dyes and so forth required by the "natural" fibers. Allied Chemical & Dye, Du Pont, Hercules Powder, Mathieson Alkali and Westvaco Chlorine may be cited among the principal chemical beneficiaries of textile activity.

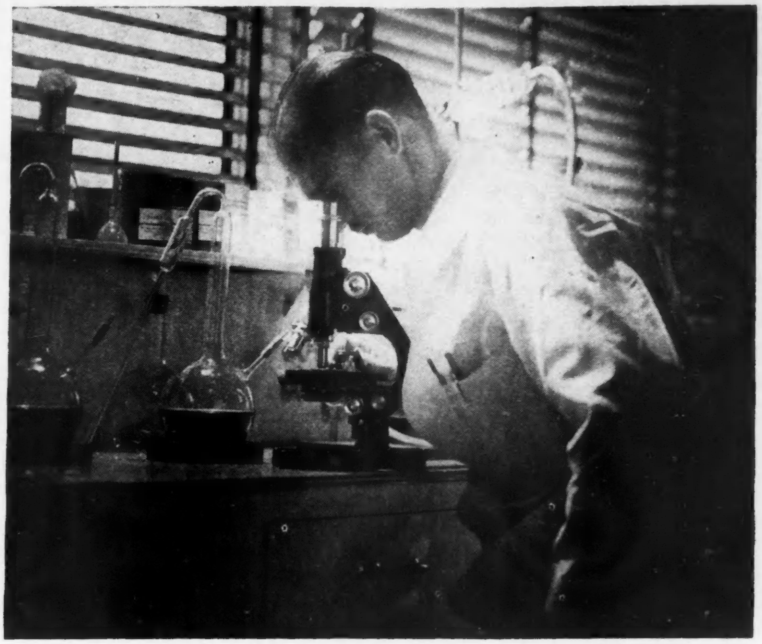
The high rate of production in the steel industry has boosted demand for sulphuric acid, while the almost unprecedented demand for scrap metal has had a very stimulating effect upon the consumption of oxygen and acetylene. Often thought of merely in terms of repair work or as a "wrecker" of old steel products and structures, it is to be noted that there is a growing tendency to employ the oxy-acetylene flame in manufacturing operations as a fabricator of shapes. All this has contributed to the prosperity of the acid makers and, of course, of Air Reduction and Union Carbide & Carbon—the latter benefiting additionally from the demand for various metal alloys.

The automobile is a great consumer of chemicals both directly and indirectly. In finishes, impregnated fabrics, batteries and plastic gadgets it may be said to consume chemicals directly. Indirectly, it consumes them in a hundred different ways. Tires are compounded of chemicals: enormous quantities of soda ash go into the making of the glass: it may be that the motor is mounted on artificial rubber, wholly a chemical product (Du Pont) which is unaffected by oil as is natural rubber. It is impossible to single out for specific mention the chemical manufacturers which have benefited most from the high rate of automobile production, for the business of them all is the greater because of the public's apparently insatiable demand for cars.

Returning prosperity has noticeably increased the need for paper of all kinds. This in turn has greatly stimulated the demand for many chemicals. The soda ash required in the manufacture of newsprint has greatly

helped Allied Chemical, Mathieson Alkali, Du Pont and other companies. Sodium sulphate, a by-product of acid manufacture, has been aided by the veritable boom in southern kraft. Nor must all the chemical fillers, glazes and finishes that paper requires be forgotten.

One could go on indefinitely citing one industry after another and show how its participation in the recovery movement has made for a greater use of chemicals and thereby aided one or more of the companies that appear in the accompanying table. Enough, however, has been said to show how all-pervading the chemicals are and to make the point that business activity no matter where it occurs is bound to be of benefit to them. From this it logically follows that a continuance of the recovery will bring further gains to this group. While there are local clouds in the sky and a strike or something else can crop up and bring a temporary unsettlement, all the weight of the evidence points to recovery having further to go. Even the pessimists look for nothing worse than a minor recession in business activity this summer. It is thought that the textile industry possibly is in a somewhat topheavy position and, if true, it is something of a threat to the consumption of certain chemicals. So diverse, however, is the chemical industry that, even though one goes out of ones way to look for dark spots in the outlook, the background remains strongly favorable.



On top of this, of course, there are the profit possibilities in those new products and processes which the chemical industry has recently introduced and those which undoubtedly will make their appearance during the coming months. Naturally, nothing can be said about the latter. Mention, however, can be made of some of the recent developments which have the earmarks of becoming money-makers.

As something of an anti-climax to the stress which has been put upon the "new product" aspect of the chemicals, it must be admitted that nothing has appeared on the market within the past year or two that seems to promise such profits as Union Carbide has obtained from "Prestone," for example. Nevertheless, although it may be impossible to point to the one big, startling new product, there is no dearth of new things. There is Du Pont's artificial rubber, "Duprene," which, as has been said, is superior to the natural product for some purposes. The same company also introduced last year the new plastic "Pontalite" and the annual report makes mention of last year's progress in research saying " . . . continued improvement and further manufacturing development of a tough, durable synthetic sponge, made from cellulose; a titanium silicate base pigment for use in exterior white paints; additional dyestuffs of various types; a water-repellent for textiles; a hydrocarbon resin for use in the paper, printing ink and textile industries; a further (*Please turn to page* 193)

Leading Chemical Companies

Name	Earned per Share 1936	Earned per Share 1st qr. 1937	Recent Price	Principal Products
Air Reduction	$2.79	0.77	70	Oxygen, Acetylene, Carbon Dioxide, Welding apparatus.
Allied Chemical & Dye	11.44	....	221	Broad line of heavy industrial chemicals, acids, etc. Dyestuffs, Nitrates, Asphalt products.
American Cyanamid "B"	1.77	0.54	30	Fertilizer materials, Dyes, plastics.
Atlas Powder	4.21	1.10	71	Explosives. Wide range of cellulose products, incluing enamels, artificial leathers.
Commercial Solvents	0.84	....	15	Various alcohols and compounds. Liquor. Plastics.
Dow Chemical	4.48*	....	135	Fine chemicals. Bromides. Magnesium.
Du Pont de Nemours	7.56	1.34	154	Broad line of heavy industrial chemicals. Many finished chemical specialities. Dyestuffs. Paints. Rayon. Explosives.
Hercules Powder	6.33	2.29	150	Explosives. Nitrocellulose. Chemical Cotton. Paper Makers' Chemicals. Naval Stores.
Mathieson Alkali	1.76	0.52	34	Soda Ash. Caustic Soda. Chlorine. Ammonia.
Monsanto Chemical	4.01	1.20	87	Broad line of heavy industrial chemicals. Fine chemials.
Union Carbide & Carbon	4.09	1.10	100	Carbon products. Alcohols and other solvents. Calcium Carbide. Oxygen. Nitrogen. Welding apparatus. Plastics. Metal Alloys.
U. S. Industrial Alcohol	Def	....	34	Ethyl Alcohol and related chemicals and solvents.
Westvaco Chlorine	1.47	0.44	20	Chlorine. Caustic Soda. Other chemicals.

* Year ended May 31.

For Profit and Income

United Carbon

Following close on the heels of record-breaking earnings last year, another record was made by United Carbon in the first quarter of this year. Earnings reached an all-time peak. Sales increased 25% and net was equal to $1.81 a share on the outstanding stock. This excellent achievement on the part of this company reflects its good fortune in being identified with two products for which demand has been at a high level for some months—natural gas and carbon black.

Railroad Equipment

Orders for new railway equipment, which bounded upward with considerable vigor in the closing months of 1936, have shown no signs of abatement. In the month of April orders were placed for 84 locomotives, including electric switching and diesel units, 13,046 freight cars and 52 passenger and mail coaches, according to *Railway Age*. Holders of the shares of leading builders of railway rolling stock should bear in mind that earnings from new business do not show up in income accounts until some months hence. Accordingly, earnings of these companies in the first six months of this year should more fully reflect the results of the heavy volume of business booked late last year.

Kodak's Picture

With the rapid growth of the candid camera hobby and amateur motion picture photography during the past several years, there is slight doubt that Eastman Kodak has been meeting increased competition, particularly in the field of low priced equipment. Nevertheless, the company continues to forge ahead. Domestic sales in the early months of this year ran some 15% ahead of last year. The company's acetate yarn plant has been operating at capacity and production has been sold as fast as it could be turned out. With the probabilities that the earnings of $8.23 a share in 1936 will be topped this year, directors were well justified in their recent action raising the dividend to $2 quarterly.

Recent Reports Hold Many Surprises

Corporate reports coming to hand over the past few weeks—most of them covering the first three months of the year—make on the whole a remarkably good showing. There were, however, surprises: some companies did even better than had been expected of them, while for a few the earnings were disappointing. Take National Supply, for example. It was known that first quarter profits would be good and optimists predicted something in excess of $4.50 a share. However, nothing like the $6.15 a share actually reported was thought to be possible. The report of Collins & Aikman showing earnings of $8.15 for the fiscal year to February 27, last, was another pleasant surprise. In the previous year the company earned the equivalent of $6.28 a share. Nor was Coca-Cola, which earned 66 cents a share in the first quarter of 1936, expected to show as much as 95 cents for the first three months of 1937. In the railroad group, Atchison's gross and net for the first two months of the year were sharply ahead of 1936 and, with loadings subsequently holding up well, it is estimated that for the first four months something was earned on the common, against a deficit of $1,600,000 in the first four months of 1936. Royal Typewriter reported the remarkable earnings of $4.05 for the first quarter, compared with $1.94 a year ago. Chicago Pneumatic Tool showed $1.31 for the first three months of the present year, against only 16 cents a year ago. In the automobile accessory group many companies failed to equal the showing of 1936, but Borg-Warner earned $1.88 a share on its common in the first quarter, compared with $1.34 a share last year. General Motors and Youngstown Sheet & Tube are two other important companies whose earnings so far this year have run ahead of expectations.

Among the surprises that were not pleasant was the report of Yellow Truck & Coach. Despite a 60% increase in sales, net profits in the first quarter of this year fell to $457,000, compared with $791,000 for the corresponding previous quarter. Barnsdall oil turned in a profit equivalent to 26 cents a share on the common, compared with 22 cents a share a year ago—a gain which appeared to be behind the average for the oil industry. As a corollary to the lethargic action of the can stocks, the

report of Continental Can for the twelve months to March 31, last, showed earnings equivalent to $3.18 a share of common, against $4.22 on a somewhat smaller number of shares for the previous twelve months.

Prosperous Year for Paint Companies Expected

So far this year the paint business is reported to have been very active with sales running some 25% ahead of 1936. While a mild winter has contributed to the exceptionally good showing for the first part of the year, there are favorable factors more fundamental—the general improvement in business making for expansion and rehabilitation, and the greater purchasing power of the average citizen which has made for increased residential construction and home repair work. Paint manufacturing costs have, of course, risen sharply and it is likely that profit margins have been reduced. However, the greater volume should more than offset the reduction in profit margins. Among the principal companies through which participation in paint prosperity may be obtained are Sherwin - Williams, Pittsburgh Plate Glass, National Lead and the Glidden Co. Pratt & Lambert, Grand Rapids Varnish, and Valspar, all traded on the New York Curb Exchange, are among the smaller units in the field of finishes.

Some Little Preferreds

To many the appeal of the low-priced common stock is an irresistible one. They like to own a "lot of shares," despite the fact that there is frequently less value in low-priced common stocks in general than there is in those selling at high levels. In the case of certain preferreds, however, it is possible for the low-price enthusiast both to satisfy his craving for a large number of shares and at the same time obtain as much value dollar-for-dollar as the man who buys preferreds whose par value is $100. Representing utilities there are a number of these little preferreds traded actively on the New York Curb Exchange. Pacific Gas & Electric has a $1.50 preferred selling at about $29 a share and $1.37½ preferred selling at $26; two preferreds of the Southern California Edison bear the same dividend rates and sell to yield roughly the same; then there is a Buffalo, Niagara & Eastern Power $1.60 preferred which can be bought for about $25 a share. On the New York Stock Exchange the little preferreds include the $1 preferred of Hiram Walker, the 60-cent second preferred of Paramount Pictures and the $1 preferred of Bethlehem Steel. Although none of these issues qualifies as a strictly high-grade investment, all have merit and afford a yield which is interesting in these days of low return on capital.

Developments in Companies Recently Discussed

Phelps Dodge. Has filed a registration statement with the S E C covering some $20,000,000 in convertible debentures. The money will be employed for the extension and improvement of capital assets.

Penick & Ford. Officially forecast that there will be a loss during the second quarter of the present year, the first time the company has operated at a loss for fifteen years. This explains the declaration of a 25-cent dividend instead of the usual 75 cents. The selling price of corn products has not kept pace with the rise in raw material prices.

American Car & Foundry. The declaration of a 25-cent dividend was the first distribution to common stockholders since 1931.

Texas Gulf Sulphur/Freeport Sulphur. The increase in the Louisiana severance tax from 60 cents a ton to $2 has resulted in a sharp decline in that state's sulphur production. In the meantime sulphur production in Texas, where the tax is only $1.03 a ton, has expanded. A number of Louisiana civic organizations have petitioned the Governor that the levy imposed by their state be reduced.

Cluett, Peabody. Plans to split its common stock three-for-one and then offer rights to subscribe to additional stock. The new money will be used to bolster working capital and to finance certain additions to plant facilities.

Container Corp. Has filed with the S E C a registration statement covering 130,708 shares of common stock which will be offered to present stockholders at $23 a share in the ratio of one share of new stock for each five held. The money will be employed to repay bank loans, bolster working capital and for plant improvements.

International Harvester. Billings for the six months ending April 30 were 30% larger than in the corresponding previous period. In the face of a sharp and general decline in the market, the company's stock has held up better than most.

Consolidated Edison. Reports that it now owns 346,118 shares of New York Steam out of a total of 360,000 outstanding. Edison proposes to offer holders of Steam preferred one share of its own $5 preferred for the $6 Steam preferred and one share of its own preferrd, plus $10 in cash, for Steam's $7 preferred. Plans for refunding Steam's bonds are not yet perfected.

Baldwin Locomotive. Bookings of this company and its subsidiaries, including the Midvale Co., totalled $14,990,030 for the first four months of 1937, compared with $10,771,034 in the corresponding period of last year.

Sterling Products. Announces further expansion in the acquisition of American Ferment Co., Drew Pharmacal Co. and the Cellasin Co., all located in Buffalo. The consideration was in excess of $7,000,000 cash, payable over the next three years. Sterling seems to be sufficiently strong financially to make the payments without new financing.

An Undervalued Issue

Expanding Business and Profits Foreshadow an Increase in Dividends

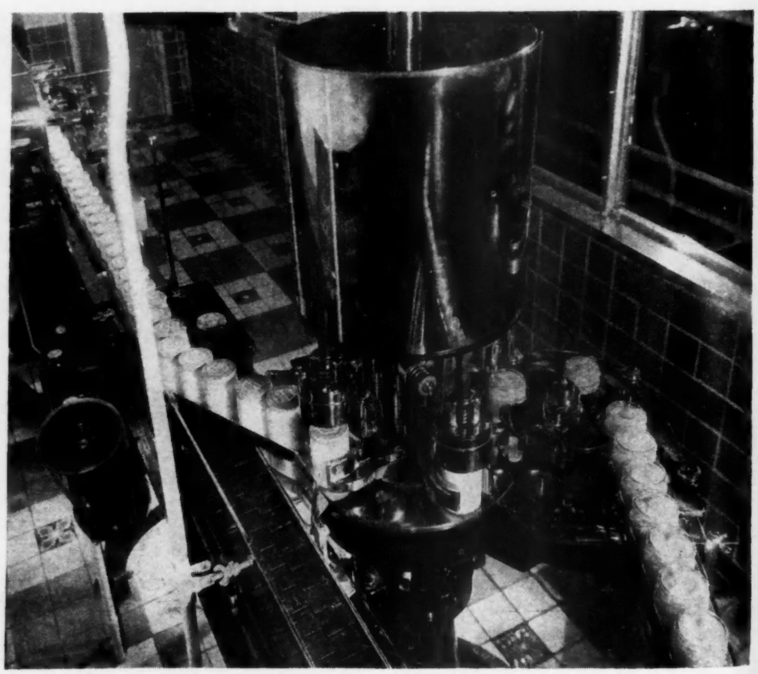
BY J. C. CLIFFORD

Four billions of dollars is a lot of money, even to a country growing accustomed to a New Deal's figures. Huge as the sum is, it is nevertheless the value put upon the products of the milk industry in the United States. The average man, unthinkingly, merely accepts the fact that milk starts with a cow and ends somewhat miraculously in a bottle on his doorstep. If he pauses for a moment he will realize that it is a great deal more than this: he will remember that cheese and ice cream are largely milk, that the baby's formula was powdered milk: then, of course, there's butter. The story is still incomplete, for milk goes into salad dressings, into chick feeds, into casein and hence into adhesives and plastics. There is buttermilk, condensed buttermilk, semi-solid buttermilk and acid buttermilk. There is skim milk, condensed skim milk and skim milk powder. Although even this is far from a complete list of products, enough have been mentioned to indicate that milk's range is wider than one would think at first sight.

So big is the milk industry that no one company can lay claim to as much as ten per cent of it. National Dairy Products Corp., whose sales last year totalled $329,000,000, is the unit nearest a position to make such a claim. The business of the Borden Co. is a large one, too, but its sales last year were $100,000,000 under those of the leader in the field.

The milk business was among those slow to feel the effects of depression. When the disaster finally overtook the dairy companies, however, they suffered as much as anyone in the consumer field. Moreover, they have been laggards in recovery, National Dairy's profits reaching a low point in 1934, instead of in 1932 as was the general rule. Nevertheless, although starting late, there has been an improvement in earnings over the past few years. Last year's net profit of $13,282,028 was about double the amount earned in 1934 and was equivalent to $2.01 a share on the company's outstanding common stock. For 1935 earnings were equal to $1.38 a share.

There are several reasons for the improvement and, as they seem to be continuing, when earnings for 1937 are finally calculated they should be larger than last year's. National Dairy Products has benefited, of course, from the general improvement. Owing to higher incomes, the public has been buying more milk, butter, eggs and ice cream. Then, too, it is always easier for a



Courtesy National Dairy Products Corp.

Capping machine for Kraft mayonnaise products.

processor to make money on a rising commodity market than it is on a falling market. In the case of the former, inventory losses are largely eliminated; it is the nature of the business that National Dairy must carry large inventories. At the end of last year the company valued its stock of goods at nearly $28,000,000, or not far from $10,000,000 more than at the end of 1935. Probably, shortly after the season of flush milk production in the Spring, inventories move to a yearly high.

In addition to the public's increased purchasing power and the upward trend of prices, National Dairy's earnings have been helped by the emphasis that the company is putting upon products other than fluid milk. Fluid milk is rapidly attaining a position where it is nothing more than a necessary evil to the distributors of dairy products. In the first place, it is an expensive product to handle. Apart from the drivers' wages, National Dairy can figure on spending annually between two and three million dollars on truck repairs and replacements; settling the bill for milk bottles alone will not leave much change out of two million dollars; nor are horses, wagons and harness maintained for nothing. On top of what may be termed the "natural" annoyances and costliness of fluid milk distribution, there has been imposed all kinds of political annoyances and disturbances. In New York State, for example, for four years the price of fluid milk was under the regulation of the Milk Control Board. The Board fixed the price paid the farmer and also the lowest price to be charged by the retailer. However, no commodity price-fixing scheme ever worked yet for any length of time. The New York milk control was no exception: farmers gave rebates to distributors; distributors in turn gave them to retailers. In face of the demonstrated impracticability the law was permitted to lapse on April 1, last. In its lapsing it brought perfectly chaotical price conditions in New York City. The retail price of milk in stores was reported as low as five cents a quart, whereas it had been eleven cents previously.

Courtesy National Dairy Products Corp.

Hauling milk to market—"big volume"—"small profits."

Almost everywhere politics has meddled, or is meddling in fluid milk. The Department of Agriculture has meddled: the Federal Trade Commission wants to regulate the whole industry and not long ago sent a recommendation to Congress to this effect. In the light of all this, there is an evident significance in the stress which the dairy companies put upon their miscellaneous business and National Dairy Products owes an important part of its gain in earnings to the expansion of these miscellaneous lines. Through its subsidiary, Kraft-Phenix Cheese, National Dairy is the largest maker of cheese in the world. It probably sells $100,000,000 worth of this product annually. Only slightly less famous are the company's ice creams, "Breyer's," "Hydrox" and "Fro Joy."

The last factor which will be mentioned as having contributed to this company's larger profits is a purely financial one. Some $66,000,000 in $5\frac{1}{4}$ per cent debentures was replaced with $62,545,500 in $3\frac{3}{4}$ per cent debentures (with warrants) and $7,000,000 in bank loans carrying interest at $2\frac{1}{2}$ per cent. As a result of this financing interest on funded debt last year was more than half-a-million dollars less than the $3,534,277 charged against earnings for 1935. This year the savings will be even more pronounced.

The present year has opened well for National Dairy Products. Sales are understood to have been between 10 and 15 per cent greater than in the corresponding period of 1936. Profits should be up even more. The company publishes no quarterly reports; however, in the first six months of last year earnings were equivalent to 89 cents a share of common stock. Increased business and savings in interest charges might well result in a net of $1.25 a share for the first six months of 1937. Should such a showing materialize, it might cause a revision of the company's dividend policy earlier than had been expected. In the last annual report it was said: "At present it is the thought of the Board to continue the present rate of dividend on the common stock and wait until the last quarter to consider what further dividends, if any, should be declared. The present dividend is 30 cents quarterly. This rate prevailed in 1936, although the company squeezed five payments into the year. In the event that four quarterly dividends at the present rate *should* be earned in the first half of 1937, it is not difficult to imagine the directors voting an extra, or even a higher regular rate, before the year end—the time originally set for such action.

Before passing from the subject of dividends, it is to be remembered that National Dairy Products will be more interested this year than *(Please turn to page 188)*

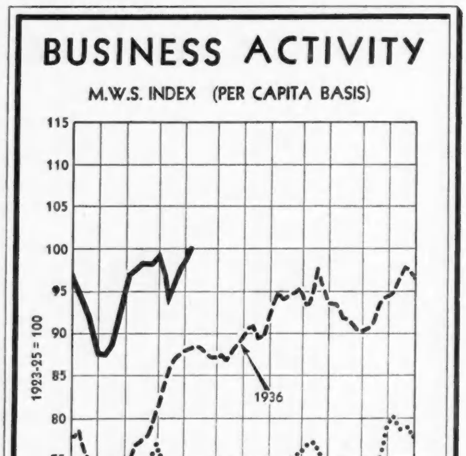
Taking the Pulse of Business

— Commodity Prices Level Off
— Business Volume Large
— Motor Production Heavy
— Building Costs Rise
— Steel Continues Active

In speculative quarters the past fortnight has been devoted largely to sweeping up the debris and a quieting of jittery nerves. Prices of stocks, bonds and raw materials have shown somewhat better stability and there is less talk about business going to the dogs. In due course of time folks will again wax over-optimistic, for we are a mercurial people with short memories.

Up to present writing, the commodity and security markets have staged nothing more alarming than an old-fashioned shake-out, such as we used to have now and then in the United States prior to the era of high margins. This time the trouble started in Europe, where margins are still slim, and spread to America. It was an inevitable consequence of excessive speculation abroad, and does not appear to have been prophetic of any considerable falling off in business volume, on this side of the Atlantic at least. At bottom prices, the Common Stock Index had lost 41% of its rise during the past year; but was still 31% higher than a year earlier. Raw Material Prices, on an average, lost only 25% of a year's advance; but also stopped, for the time being at least, at a level 31% higher than a year earlier. In point of size, we have had nothing more than a normal technical reaction in stocks, and a comparatively mild recession in staple commodity prices; though prospects of expanding supplies, especially of agricultural staples during the coming crop season, render it possible that the setback in commodity prices may extend somewhat farther.

The decline in high grade bond prices, precipitated primarily by unwarranted fears of higher interest rates incident to the inauguration of stiffer reserve requirements on May 1st, appears to have ended definitely. May 1st has come and gone with little more than a ripple in the money market, and distinct softness has again begun to appear in bankers' acceptance rates, which are always sensitive to changing trends in credit conditions. Government bond prices are showing a firmer tone with the tapering off of sales by commercial banks, and the Federal Reserve Board no longer finds it necessary to support the market. The Administration is still committed to a cheap money policy, which will be enforced by one means or another. Foreign sales of securities and commodities in this market, along with a large influx of funds into England incident to the coronation, have checked temporarily the unwelcome flow of gold to these shores and so pushed into the background recent disturbing fears of a reduction in the price of that precious metal. Nevertheless, so long as production of the yellow metal continues to exceed the demand for legitimate monetary and industrial purposes the dehoarding of gold in exchange for deposit and paper currencies is bound to gain momentum and send intermittent chills down the wabbly spine of an all too money-conscious business world.



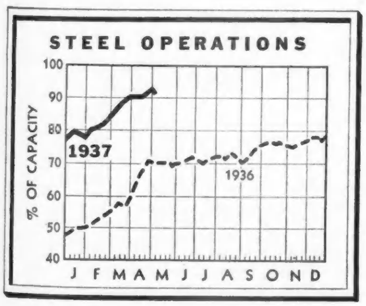
The fact is that, regardless of the gold content of the dollar, it is impossible to have a business set-back of any consequence so long as the country's purchasing power continues to expand at anything approaching its present pace. In March, factory payrolls were 31% larger than during the corresponding period a year ago, and factory employment was up 15%. Farm income in March, including benefit payments, was only 3% less than in March, 1929, and exceeded that for March, 1936, by 36%. Present prospects point to heavier crops and livestock marketings next season at better than average prices; so that no substantial decline in this backbone of the country's buying power seems probable for some time to come. Divi-

dends declared in April were 36% more liberal than a year ago.

There has been some withholding of orders and a few cancellations in consequence of the recent price reaction and the circulation of pessimistic business forecasts; but, since retail sales recently have spurted to a level 15% ahead of last year, it would seem that consumption must soon lap up excess inventories and compel re-ordering. Meanwhile per capita Business Activity has expanded sharply to above the 100 line for the first time since 1929.

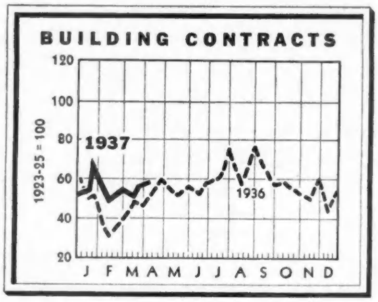
The Trend of Major Industries

STEEL—Steel ingot production in April averaged 1,182,255 gross tons weekly, only 11,000 tons below the all-time record established in May, 1929. Bookings last month were heavier than expected in view of the record-breaking March total and the fact that prices will not be advanced for the third quarter; but delivery conditions are easing somewhat, and only in a few instances are order books well filled up to July 1st. Motor car makers continue to draw on accumulated stocks, but will probably have to place additional orders before long in view of the prolongation in near capacity operations. Deliveries in various lines can be had now in from four to 24 weeks. Promises are generally from six to seven weeks (including three weeks for manu-



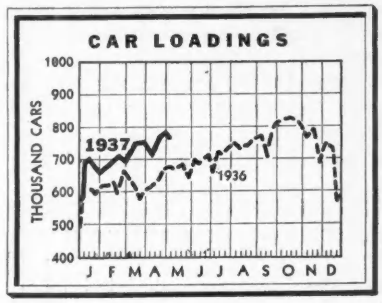
facture) on cold finished sheets used largely in the automobile industry. Owing to increased supplies, coke and scrap prices are receding. Japan has withdrawn from the scrap market and is buying pig iron. All records for Lake Superior ore shipments for April were broken when 3,770,555 tons were shipped by vessel, compared with 3,567,985 during the entire ore season of 1932. Only four companies, having 41.4% of the industry's total ingot capacity, have signed with the C. I. O. The 11 other large steel producers, while mostly willing to negotiate, have refused to put agreements in writing, a circumstance which threatens to cause labor trouble and plant shut-downs unless these differences can be compromised.

CONSTRUCTION — Under an agreement recently signed in New York City, bricklayers will get $13.20 for a seven-hour day against $12 for eight hours formerly; while carpenters will receive $12.25 against $11.20. Pasterers are paid $12 for a six-hour day, with overtime prohibited. Prior to these increases, recent surveys found that material costs in construction work last



month were lower than the average for 1934, and that residential building costs increased less than 10% during the past year. According to this it would seem that the slow rate of expansion in building activity may be due more to low rental rates than high building costs; though rents have advanced 12%, on an average, during the past year.

RAILS—Class I carriers during the first quarter, compared with a like period in 1936, converted an 11% gain in gross revenue into a 40% increase in net railway operating income. Gross for the first quarter totaled $1,031,000,000 with $146,000,000 saved for net. Freight car loadings in April increased 15% over April, 1936. If this rate of gain can be maintained during May and June, and if the same proportion of increased revenues is carried through to net as in the first quarter, the net operating income for the second quarter would approach $180,000,000, an increase of 35% over the $133,000,000 earned during the second quarter of 1936. This would produce a net income, after charges, of around $50,000,000, compared with only $14,000,000 for the first quarter and $4,000,000 for the second quarter of 1936. Present

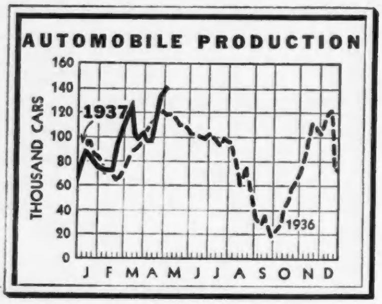


prospects favor passage of Federal pension legislation which will add to this year's net about $47,000,000 from excess pension reserves previously accrued.

METALS — Domestic consumption of copper during the first quarter came to 224,000 tons, the largest for any quarter since 1929, and 40% ahead of the corresponding period a year ago. On sales booked during the final quarter of 1936 at an average price of 10c, Anaconda has just reported for 1937 the best first quarter earnings in eight years. With copper averaging 12c during the first quarter, Anaconda's second quarter profits should make an even better showing. This is probably more or less typical of the copper industry. The metal is moving now in fair volume at a domestic price of 14c. World zinc stocks on May 1st amounted to only a little more than one week's supply. The House Appropriations Committee recently heard expert testimony to the effect that cans can be made of aluminum and folded instead of soldered; that many thousands of tons of tin could be saved by a newly invented process of plating iron with aluminum; and that about 75% of present tin imports could be stopped if these substitutes are adopted commercially. It was also testified that manganese from domestic low grade ore can be produced cheaply enough by Government-generated power, and in sufficient quantity, to meet national requirements.

AUTOMOBILES — Exports of cars and trucks during the first quar-

ter increased 25% over the like period of 1936, against a gain of only 14% in domestic sales. Twenty-seven per cent of all cars sold outside the United States were of American make, the proportion rising to 72% in sections which lack facilities for home production. The New York automobile show is scheduled to open on October 27 this year, and current demand is so heavy that near-capacity operations are expected to be prolonged this

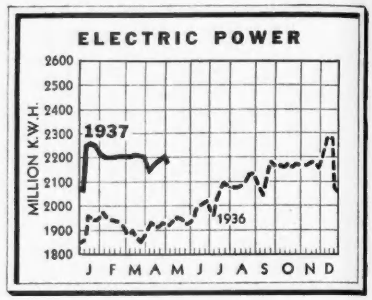


summer far beyond the usual seasonal peak. Higher costs, however, are expected to reduce profits this year to a level little if any better than last year. Twenty accessory companies have reported aggregate earnings amounting to 57% ahead of the last year's first quarter.

OIL—Earnings of 23 leading oil companies for the first quarter aggregated $48,000,000, an increase of 85% over the first quarter of 1936. Gasoline stocks are beginning to decrease seasonally, although crude output runs 18% ahead of a year ago. Pipeline deliveries for the first four months were 22% ahead of a year ago. Moderate advances have been posted recently in tank car gasoline and bunker fuel oil prices; and second quarter earnings should be even better than for the first quarter.

MERCHANDISING — Compared with the corresponding month last year, wholesale trade showed an increase of 21%, ranging from 188% in diamonds, 48% in jewelry, 30% in silk and rayon, down to 6% in cotton goods. In foreign trade, our March exports gained 31%; but imports increased 54%, leaving excess imports of $50,000,000, which points to the possibility that our total so-called "unfavorable" balance of merchandise trade this year may reach a half billion. In April, department store sales, adjusted for the later Easter last year, increased 12%. April also witnessed a gain of 10.5% in chain store sales, led by the mail order houses with an increase of 26.6%, and followed by groceries with their gain of 15.2%. Variety store sales were 4.5% lower than in April, 1936.

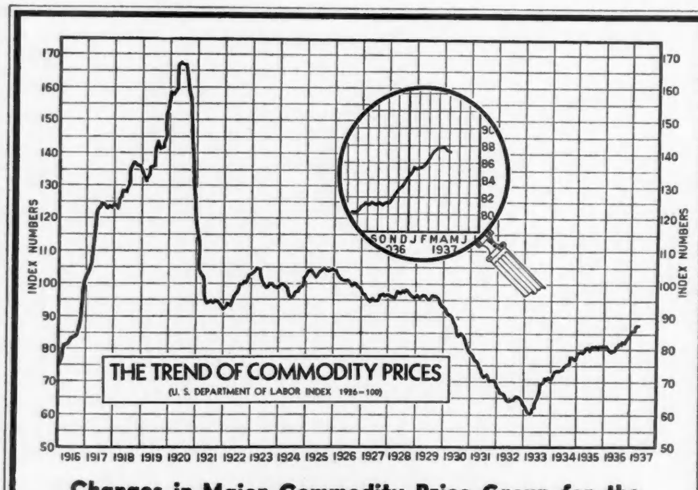
UTILITIES—Compared with the corresponding periods a year ago, February sales of electric power increased 13.9% in K. W. H., against a gain of only 7.2% in dollar value. For twelve months ended Feb. 28, the increases were 15.6% in K. W. H. and 8.1% in dollar value. Senator Norris is expected to propose eight additional "little T V A" projects, presumably covering, among other areas, the Ohio, Missouri, Arkansas, and Colorado River Valleys. The recently levied 2% tax on gross income of utilities operating in New York State will have little effect upon companies whose customers reside mostly in New York City. Recent reductions in telegraph rates is believed to have been forced partly by lowering of long distance telephone rates; but even more by the rapidly growing popularity of air mail. Explanation for persistent weakness in New York City's traction securities has at last been revealed through refusal of the Transit Commission to



ratify the Seabury-Berle plan of unification. Injection of the matter into politics promises to postpone unification indefinitely. Meanwhile competition from the municipally owned and subsidized subway system, along with labor union demands for higher wages, renders the earnings outlook for New York City's subway, elevated and surface track lines well nigh hopeless for some time to come.

Conclusion

In spite of declining prices for stocks, bonds and staple commodities during the past month, and in the face of gloomy business forecasts from Government and private sources, the country's per capita business volume has risen sharply to above the 100 mark for the first time since 1929. It is possible that further declines in raw material prices and continued pessimistic outgivings may cause some temporary withholding of orders; but rising consumption is mopping up excess inventories so rapidly that no important business recession seems probable in the near future.



Changes in Major Commodity Price Group for the Fortnight Ended May 8, 1937

Farm Products	down 1.7	Metals	down 0.3
Foods	down 0.3	Building Material	up 0.2
Hides and leather	up 0.4	Chemicals	down 1.2
Textiles	down 0.3	Housefurnishings	up 0.4
Fuel and lighting	up 0.6	Miscellaneous	down 0.5

ESSENTIAL STATISTICS

Finance Securities Business

THE MAGAZINE OF WALL STREET'S COMMON STOCK INDEX

1936 Indexes High	1936 Indexes Low	No. of Issues	(1925 Close—100)	1937 Indexes High	Low	May 1	May 8	May 15
106.0	78.4	330	**COMBINED AVER.**	122.0	99.0	104.7	104.9	99.0x
204.6	113.4	5	Agricultural Implements	241.0	204.6	241.0H	240.4	223.0
68.6	39.9	6	Amusements	72.6	61.4	65.5	63.7	61.4x
143.5	116.8	16	Automobile Accessories	146.6	112.2	117.9	119.5	112.2x
24.9	17.7	13	Automobiles	30.1	22.3	24.5	24.2	22.3x
156.8	104.3	8	Aviation (1927 Cl.—100)	178.0	126.0	141.4	135.8	126.0x
23.8	12.6	3	Baking (1926 Cl.—100)	28.5	18.6	19.6	19.9	18.6x
500.9	318.6	2	Bots. & Cks. ('32 Cl.—100)	536.0	456.6	482.6	507.9	495.0
262.0	202.8	3	Business Machines	308.6	249.8	249.8x	265.1	254.4
287.4	216.2	2	Cans	242.8	194.8	194.8x	201.3	194.8
237.1	187.5	10	Chemicals	247.7	216.6	222.8	226.4	216.6x
73.8	42.8	15	Construction	88.3	66.9	71.1	72.2	66.9x
166.4	87.9	10	Copper & Brass	217.3	148.0	159.7	161.6	148.0x
47.8	39.3	2	Dairy Products	43.0	37.8	38.9	39.1	37.8x
41.8	23.3	10	Department Stores	42.7	33.3	35.0	34.7	33.3x
100.1	72.8	8	Drugs & Toilet Articles	108.8	89.4	95.6	98.2	89.4x
441.1	227.2	2	Finance Companies	388.4	323.5	346.4	351.1	332.1
70.1	60.9	7	Food Brands	71.9	55.9	61.0	61.2	55.9x
56.6	41.4	4	Food Stores	53.2	44.4	46.1	46.2	44.4x
103.2	65.7	3	Furniture	122.3	98.3	106.0	104.6	98.3x
1296.9	1116.0	4	Gold & Platinum Mining	1253.6	973.4	1001.0	981.6	973.4x
51.0	36.6	5	Investment Trusts	58.6	46.6	49.3	49.4	46.6x
341.6	265.2	3	Liquor (1932 Cl.—100)	317.8	266.5	276.5	281.9	266.5x
189.5	134.7	9	Machinery	209.8	173.3	181.6	180.5	173.3x
107.4	61.3	2	Mail Order	104.2	85.3	90.0	89.1	85.3x
83.9	59.4	4	Meat Packing	109.6	79.6	87.8	90.2	83.8
232.5	159.5	14	Metal Mining & Smelting	334.1	232.5	262.3	263.9	247.9
23.4	6.0	2	Paper	26.5	19.0	22.6	21.8	20.8
142.8	97.2	24	Petroleum & Natural Gas	158.8	138.3	148.5	145.8	138.3x
96.6	67.2	18	Public Utilities	114.9	77.5	83.9	84.5	77.5x
35.4	26.7	4	Radio (1927 Cl.—100)	31.7	24.1	24.5	25.6	24.1x
100.4	52.5	9	Railroad Equipment	112.9	84.5	89.2	90.9	84.5x
39.8	27.3	24	Railroads	48.6	37.2	42.5	44.3	41.3
27.1	13.4	3	Realty	28.5	16.7	18.4	18.0	16.7x
87.6	62.7	4	Shipbuilding	87.6	62.9	66.0	68.0	62.9x
124.5	85.2	12	Steel & Iron	165.6	124.5	138.5	139.0	129.5
45.3	29.8	6	Sugar	45.2	37.1	39.2	39.2	37.1x
175.6	142.5	2	Sulphur	171.2	146.6	153.5	151.9	146.6x
97.4	76.6	3	Telephone & Telegraph	85.3	66.5	71.6	70.6	6.5x
83.5	62.0	8	Textiles	91.8	73.1	79.2	78.8	73.1x
20.9	10.6	4	Tires & Rubber	29.2	20.5	25.9	26.0	24.2
100.2	87.2	4	Tobacco	99.4	82.6	83.9	85.5	82.6x
76.2	61.0	5	Traction	71.9	44.1	47.3	46.2	44.1x
369.2	232.5	4	Variety Stores	346.8	264.0	275.4	272.2	264.0x

H—New HIGH record since 1931. x—New LOW this year.

DAILY INDEXES OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, May 3	85.23	174.59	58.25	130.36	129.28	1,027,640
Tuesday, May 4	85.51	176.30	59.41	131.11	130.00	814,210
Wednesday, May 5	85.58	174.67	59.05	131.46	130.31	1,394,760
Thursday, May 6	85.57	175.81	60.32	131.88	129.81	1,654,800
Friday, May 7	85.82	175.89	60.63	132.69	131.49	1,582,560
Saturday, May 8	85.67	175.54	60.14	131.73	131.37	634,660
Monday, May 10	91.55	173.04	58.61	131.05	129.53	779,630
Tuesday, May 11	91.36	172.55	58.95	129.77	128.41	746,944
Wednesday, May 12	91.49	172.44	58.89	130.08	128.77	674,076
Thursday, May 13	91.50	167.46	57.27	128.68	125.37	1,773,350
Friday, May 14	91.65	169.15	57.76	127.03	125.13	1,228,360
Saturday, May 15	91.69	169.60	57.90	127.00	126.32	343,560

STOCK MARKET VOLUME

Week Ended May 15	Week Ended May 8	Week Ended May 1
5,545,920	4,136,885	9,988,360
Total Transactions Year to May 15	**Same Date 1936**	**Same Date 1935**
204,122,810	230,401,563	90,540,754

Note: Latest figures compiled as of May 15. (b)—1,000 Gross tons. (C)—Iron Age. (d)—F. W. Dodge—37 states. (e)—Estimated. (f)—Dun & Bradstreet. (G)—U. S. Labor Bureau '23-25—100. ★—000 omitted. †—000,000 omitted. *—Iron Age Composite. §—Week ended May 13. Fe.—February. Mr.—March. Ap.—April.

MONEY RATES	Latest Week	Previous Week	Year Ago
Time Money (90-day)	1¼%	1¼%	1½%
Prime Commercial Paper	1%	1%	¾%
Call Money	1%	1%	1%
Re-Discount Rate	1½%	1½%	1½%
CREDIT			
Bank Clearings, N. Y.†	$3,331	$4,247	$3,396
Bank Clearings (outside N. Y.)†	2,065	2,361	1,822
Brokers' Loans, F. R.†	1,119	1,147	993
	May 1	**April 1**	**Last Year**
Brokers' Loans N. Y. S. E.†	$1,187	$1,158	$1,064
New Corporate Financing†	104Ap	221Mr.	650

COMMODITY PRICES	Latest Week	Previous Week	Year Ago
Finished Steel* c per lb	2.605	2.605	2.097
Pig Iron* $ per ton	23.25	23.25	18.84
Steel Scrap* $ per ton	18.75	19.58	13.42
Copper, $ per lb	.14	.14	.09½
Lead, $ per lb	.06	.06	.046
Zinc, $ per lb	.06¾	.06¾	.049
Tin, $ per lb	.54¾	.55¼	.46⅞
Rubber, $ per lb	.20⅞	.22	.15¾
Crude Oil (Mid-Cont.), $ per barrel	1.27	1.27	1.17
Sugar, raw, $ per lb	.0338	.0345	.0372
Silk, raw, $ per lb	1.82	1.80	1.60
Wool, raw, $ per lb	1.10-1.12	1.10-1.12	.87
Wheat, Price, July, $ per bu	1.18	1.17⅛	.85⅝
Cotton Price, July, $ per lb	.1276	.1308	.1138
Corn Price, Dec., $ per bu	1.17¾	1.19⅝	.60¾

KEY INDUSTRIES	April	Mar.	Year Ago
Steel Ingot Prod. (b) (tons)	5,072	5,217	3,942
U. S. Steel Corp. Shipments (b) (tons)	1,344	1,414	980
Pig Iron Production (b) (tons)	3,391	3,459	2,404
Operating Rate, % Capacity	92.0§	92.0	69.0
Auto Production	518,715Mr	383,637Fe	438,945
Bldg. Contract Awards (d)★	270,125	231,246	234,632
Residential Bldg. (d)★	108,204	90,168	67,151
Engineering Contract	216,955	156,788	195,458
Cement Shipments★ (bbls.)	7,879Mr	5,163Fe	7,186
Cotton Consumption (bales)★	719	779	577
Mach. Tool Orders, '26—100%	282.5	211.6	125.7
	Latest Week	**Previous Week**	**Year Ago**
Oil Prod., daily aver. (bbls.)★	3,489	3,497	2,961
Stocks of Gasoline (bbls.)	81,469	81,407	73,018
Elec. Pwr. Output (kwh)†	2,176	2,193	1,928

TRANSPORTATION	Latest Week	Previous Week	Year Ago
Carloadings★	767	782	668
Miscellaneous Freight★	321	326	280
Merchandise, L.C.L.★	173	171	163

TRADE	April	Mar.	Year Ago
Dept. Store Sales '23-25—100%	93	93	84
Mail Order Sales★	$83,508	$75,106	$66,437
Merchandise Imports★	306,699Mr	277,805Fe	198,701
Merchandise Exports★	256,390Mr	232,504Fe	195,100
Business Failures (F)	786	802	830

EMPLOYMENT	Mar.	Feb.	Year Ago
Factory (G)	101.0	98.9	87.9
Durable Goods Industries (G)	96.0	93.2	80.2
Consumers Goods (G)	106.3	105.1	96.1
Factory Payrolls (G)	101.2	95.7	77.6

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber, use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

General Foods Corp.

As a new reader of your publication I would like to know if you feel that General Foods will continue to be a Market laggard —if it isn't entitled to move higher on its generous yield?

Due to the inherent stability which characterizes the food business generally, prospects for General Foods cannot be construed as outstanding from the standpoint of nearterm large potential profit increases. It is primarily because of that fact that the stock of the company has continued rather laggard marketwise, whereas numerous other industrial issues have registered sharp gains over the year past. On the other hand, General Foods is a stock which has characteristics entitling it to consideration by the investment type holder. In the first place, the organization has demonstrated its ability to successfully meet competition and to register earnings gains on the stock more or less proportionate to the status of general business conditions. Earnings have shown steady progress from the depression low in 1932 of $1.97 a share, net in 1933 having equalled $2.10, in 1934 $2.12, and in 1935 and 1936, $2.23 and $2.71, respectively. In the first quarter of the current year the organization enjoyed further progress from a volume standpoint, but because profit margins were lower, net equalled only 78 cents a share or but one cent more than the 77 cents a share recorded in the March, 1936, quarter. Because of the fact that the company has no funded debt or preferred stock ranking ahead of the 5,251,440 shares of common, however, the latter has sole claim on earnings and with finances in excellent shape, liberal disbursements appear likely. The shares currently are selling to yield nearly 5%, based on the present $2 annual rate, while the strong possibility of extras further enhances the issue's attractiveness from an income standpoint. The organization's general line of food products enjoy a growing worldwide demand, and great potentialities exist in the company's frosted foods line. That division already has shown phenomenal growth and the company is planning to greatly increase packing facilities and to extend retail outlets to sections not heretofore tapped. The erection of freezing plants in Florida will permit the processing of the numerous fruit, vegetable and other food products of that state. Considering the satisfactory income return currently obtaining on the stock and the rapid strides being made in the organization's frosted food division, the future appears to hold further possibilities of worthwhile earnings growth.

Studebaker Corp.

I have 150 shares of Studebaker Corp. averaging 14⅞ and I am undecided whether to continue holding through the summer. Please advise me what you think of its prospects from here.—E. T. P., Minneapolis, Minn.

Since reorganization early in 1935, Studebaker Corp. has demonstrated its ability to successfully meet the keen competitive situation existing in the industry and for 1936 reported a profit of $2,187,783, equal to $1.01 a share on the common stock, against a net loss of $1,975,622 from March 9, 1935, date of reorganization, through Dec. 31, 1935. The progress recorded last year has been continued thus far in the current year and the report covering the initial quarter reveals a net profit of $699,459, or 32 cents a share, comparing with $140,655, or 5 cents a share in the first quarter of 1936. Sales of passenger cars and trucks during the initial three months of the year increased some 24% over the like interval of the preceding year. The management has thus far been successful in gauging the market for both passenger cars and trucks and it seems reason-

(*Please turn to page* 183)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

New York Stock Exchange

Rails

	1935		1936		1937		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	5/12/37	Share
Atchison	60	35¾	88½	59	94¾	69½	89¾	†2.00
Atlantic Coast Line	37¼	19½	49	21⅝	55½	44⅛	49⅝	†1.00
B								
Baltimore & Ohio	18	7½	26½	15⅞	40½	20⅝	33¼	....
Bangor & Aroostook	49½	36⅛	49½	39	45	40	40	2.50
C								
Canadian Pacific	13¾	8⅝	16	10⅞	17½	12¼	12¾	....
Chesapeake & Ohio	53¼	37⅛	77¾	51	68⅞	56⅛	56¼	*2.80
Chicago Gt. Western Pfd	5⅝	1⅝	14⅝	4	18¼	12	12¾	....
C. M. & St. Paul & Pacific	3	¼	2⅞	1½	3¼	2	2¼	....
C. M. & St. Paul & Pacific Pfd	4¾	¾	5⅞	2⅞	7¼	4⅝	5⅛	....
Chicago & North Western	5⅝	1⅜	4⅞	2½	6⅜	3½	4½	....
Chicago, Rock Is. & Pacific	2⅝	¾	3	1½	3⅝	2⅛	2⅜	....
D								
Delaware & Hudson	43½	23½	54¾	36¾	58⅜	42⅛	44	....
Delaware, Lack. & West	19⅛	11	23⅛	14⅞	24½	17⅛	19	....
E								
Erie R. R	14	7⅛	18¼	11	23⅝	13⅞	18⅝	....
G								
Great Northern Pfd	35⅛	9⅝	46⅜	32¼	55¼	40⅝	53⅝	....
I								
Illinois Central	22¼	9½	29½	18⅝	38	22½	30⅛	....
K								
Kansas City Southern	14½	3¾	26	13	29	20	23	....
L								
Lehigh Valley	11½	5	22	8½	24⅝	17	19½	....
Louisville & Nashville	64¾	34	102⅜	57½	99	86¾	92½	‡2.50
M								
Mo., Kansas & Texas	6⅜	2½	9⅝	5½	9¾	6⅞	7¾	....
Mo., Kansas & Texas Pfd., A	16¼	5⅞	33⅜	14½	34⅝	24¼	28¼	....
Missouri Pacific	3	1	4	2⅛	6¼	3	4¾	....
N								
New York Central	29¾	12¼	49⅝	27¾	55¼	40	46¼	....
N. Y., Chic. & St. Louis	19	6	53⅛	17¾	72	41	64	....
N. Y., N. H. & Hartford	8½	2⅝	6⅛	3	9¾	5½	6⅝	....
Norfolk & Western	218	158	310½	210	272	236¾	247	....
Northern Pacific	25¼	13⅛	36¾	23⅞	36⅝	27¼	34	....
P								
Pennsylvania	32½	17¼	45	28¼	50¼	39¾	43⅜	†2.00
R								
Reading	43⅛	29⅞	50¾	35½	47	37	38¾	2.00
S								
St. Louis-San Fran	2	¾	3⅝	1½	4¾	3	3⅜	....
Southern Pacific	25½	12¾	47⅞	23½	65⅜	42½	57⅛	....
Southern Railway	16½	5½	26½	12¾	43⅜	24	37¾	....
U								
Union Pacific	111½	82½	149¾	108½	148¾	126½	142¼	6.00

Industrials and Miscellaneous

	1935		1936		1937		Last Sale	Div'd $ Per
A	High	Low	High	Low	High	Low	5/12/37	Share
Adams-Millis	37¼	28	35¾	17⅞	28⅝	24⅞	25⅛	‡1.00
Air Reduction	....	....	86½	58	80¼	68½	72¼	*1.00
Alaska Juneau	20⅛	13¼	17½	13	15¾	11⅜	12	*.60
Allegheny Steel	32	21	40⅜	26⅞	45⅝	35¼	36	‡.80
Allied Chemical & Dye	173	125	245	157	258½	224	227½	6.00
Allied Stores	9	3⅛	20⅛	6¾	21⅞	16⅛	16⅛	‡.20
Allis Chalmers Mfg	33⅞	12	81	35⅜	83½	60	62	‡.50
Amerada	80	48½	125½	75	114⅞	95	96	2.00
American Bank Note	47⅜	13½	55½	36	41⅜	22½	22½	*1.00
Amer. Brake Shoe & Fdy	42½	21	70¼	40	80¾	57¼	62½	*2.00
American Can	149⅝	110	137½	110	121	97¼	100¼	*4.00
Amer. Car & Fdy	33⅞	10	60½	30	71	51½	53½	‡.25
American & Foreign Power	9¼	2	9¾	6½	13¾	7¼	8	....
Amer. Power & Light	9⅝	1½	14⅜	7½	16½	9¼	9½	....
Amer. Radiator & S. S	25⅛	10½	27⅜	18¾	29½	21	21⅜	*.60
Amer. Rolling Mill	32⅜	15¾	37	23¾	45¼	33⅛	34	*1.20
Amer. Smelting & Refining	64⅝	31⅝	103	56¾	105¾	81¼	84½	3.00
Amer. Steel Foundries	25¼	12	64	20½	73¼	51½	51⅞	‡1.00
Amer. Sugar Refining	70½	50⅛	63⅝	48¼	56⅞	45	45½	2.00
Amer. Tel. & Tel.	160½	98⅞	190⅛	149½	187	160⅛	165¾	9.00
Amer. Tob. B	107	74¾	104	88½	99⅞	79½	80	5.00
Amer. Water Works & Elec	22¾	7⅛	27¾	19⅛	29½	18	18⅜	.80
Anaconda Copper Mining	30	8	55⅜	28	69½	48½	50½	*1.00
Armour Co. of Ill	6⅛	3¼	7⅜	4⅝	13¾	7	10⅝	‡.35
Atlantic Refining	28	20½	35⅛	26⅝	37	29¼	29¾	*1.00
Auburn Auto	45½	15	54¼	26⅝	36¾	27½	28	....
Aviation Corp. Del	5¼	2¾	7¾	4⅝	9¼	6⅝	6⅞	....
B								
Baldwin Loco. Works	6⅝	1½	11¾	2½	11¼	6¼	6⅞	....
Barber Co	22½	11¾	38½	21	43⅜	31	32¼	‡.25
Barnsdall Oil	14¾	5⅞	28¼	14⅛	35¼	26⅛	26½	1.00
Beatrice Creamery	20⅛	14	28⅜	18	28¾	23⅝	23⅝	*1.00

Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1935 High	1935 Low	1936 High	1936 Low	1937 High	1937 Low	Last Sale 5/12/37	Div'd $ Per Share
B								
Bendix Aviation	24½	11⅞	32⅜	21⅝	30½	20⅛	20⅛	‡.50
Bethlehem Steel	52	21⅝	77¾	45¾	105½	73	82⅝	‡1.00
Boeing Airplane	22½	6⅛	37⅜	16⅞	49¾	33⅝	35	....
Borden Co	27¾	21	32⅜	25⅝	28	24½	25½	1.60
Borg Warner, new	....	....	....	....	43⅞	38⅞	42¼	....
Bridgeport Brass	17⅛	8½	18⅞	12⅛	23¼	15	16⅜	.60
Briggs Mfg	55⅜	24½	64⅞	43¼	59⅞	44¼	44¼	*2.00
Brooklyn-Manhatten Transit	46¾	36½	58¼	40¼	53	27⅞	29⅛	4.00
Bucyrus Erie	8⅞	4¼	21¾	8⅞	25¼	16⅞	17¼	....
Budd Mfg	9¾	3¼	15⅞	9⅛	14⅜	9	9½	....
Byers & Co. (A. M.)	20⅝	11⅜	29⅛	16½	33¾	22¼	22⅜	....
C								
Ca-umet & Hecla	6¾	2½	16½	6	20⅛	12	13	1.00
Canada Dry Ginger Ale	17⅞	8⅛	30¾	10⅜	28¼	25½	26⅞	....
Case J. L	111¼	45¾	186	92½	176½	138	164	4.00
Caterpillar Tractor	60	36½	91	54¾	100	85½	89¼	*2.00
Celanese Corp	35⅜	19½	32¼	21¾	40¾	26⅝	37⅞	‡.75
Cerro de Pasco Copper	65⅜	38⅝	74	47¾	86⅜	62¼	63⅛	4.00
Chesapeake Corp	61¼	36	100	59	68⅞	56⅛	56¼	*2.80
Chrysler Corp	93⅞	31	138¾	85½	135¼	109½	113¾	‡3.50
Coca-Cola Co	93	72½	134	84	170½	122½	153½	*2.00
Columbian Carbon	101¼	67	136½	94	125¾	112¼	114⅞	*4.00
Colum. Gas & Elec	15¾	3⅜	23⅜	14	20⅞	12½	12½	.40
Commercial Credit	58	39½	84⅞	44	69¼	56¾	63¾	*4.00
Comm. Inv. Trust	72	56¼	91¾	55	80¼	63½	67½	*4.00
Commercial Solvents	23⅞	16½	24⅝	14¼	21¼	14⅝	15	*.60
Commonwealth & Southern	3	¾	5½	2¼	4⅛	2½	2½	....
Consolidated Edison Co	34¾	15⅞	48⅜	27¼	49⅞	36¼	36¼	*2.00
Consol. Oil	12¼	6½	17¼	11½	17⅞	15	15¼	.80
Container Corp	23⅛	22	26¼	15¾	37⅜	20⅝	32⅛	1.20
Continental Baking A	11⅞	4½	35⅜	10⅜	37¾	23	24	....
Continental Can	99¼	62¾	87¼	63¾	69⅛	50⅝	56¾	3.00
Continental Oil	35	15⅛	44⅞	28⅛	47⅜	40¼	42	*1.00
Corn Products Refining	78⅜	60	82½	63⅝	71¼	55⅜	55⅜	*3.00
Crane Co	27⅜	7	50½	24	56½	46	47¼	....
Crown Cork & Seal	48⅞	23½	91½	43⅝	100⅞	70½	75½	2.00
Curtiss-Wright	4⅝	2	9¼	4	8⅜	5½	5¾	....
Curtiss-Wright, A	12¼	6¼	21⅞	10½	23¾	18⅛	18¼	‡.50
Cutler-Hammer	47	16	83¾	43¼	90⅞	76	76	‡.50
D								
Deere & Co	58¾	22¾	108¾	52	137½	104⅜	132	....
Distillers Corp. Seagrams	38½	13⅝	34⅝	18¼	29	20¼	21¾	....
Dome Mines	44⅞	34⅛	61½	41½	51	38½	38½	*2.00
Douglas Aircraft	58⅜	17½	82¼	50⅝	77¼	49½	52	....
Du Pont de Nemours	146½	86⅝	184¾	133	180⅛	148½	155½	‡.75
E								
Eastman Kodak	172¼	110½	185	156	175¼	151	158½	8.00
Electric Auto Lite	38¾	19⅜	47½	30¾	45½	34¾	38¼	*2.40
Elec. Power & Light	7½	1⅛	25⅞	6⅜	26⅝	17⅝	18⅜	....
Endicott Johnson Corp	66	52¾	69	53½	60	55½	56¾	3.00
F								
Firestone Tire & Rubber	25½	13⅛	36¼	24⅞	41⅜	32¾	34⅛	2.00
First National Stores	58⅞	44⅜	58⅝	40	52¼	44	44½	*2.50
Foster Wheeler	30	9⅞	45⅜	24⅛	54½	43	44⅛	....
Freeport Sulphur	30⅝	17¼	35⅝	23½	32¼	25⅝	25⅝	1.00
G								
General Amer. Transpt	48½	32⅝	76	42¼	86½	68	69	†3.00
General Baking	13⅜	7⅜	20	10¾	19½	12½	12¾	*.60
General Electric	40⅞	20½	55	34½	64⅞	50½	52	‡.40
General Foods	37⅞	30	44	33⅜	44¼	39	39½	2.00
General Mills	72½	59⅞	70½	58	65⅞	60	64½	3.00
General Motors	59⅜	26⅝	77	53⅞	70½	55⅜	57¼	‡1.25
General Railway Signal	41¼	15⅝	57	32½	65⅛	42	44⅜	1.00
Gen. Realty & Utility	3⅛	¾	4⅞	2	5¾	3	3¼	....
General Refractories	33½	16¾	71	33¼	70¼	58½	60½	†3.25
Glidden	49½	23⅜	55¼	39½	51½	41	44¼	2.00
Goodrich Co. (B. F.)	14½	7½	35½	13⅝	50½	31	43⅛	‡.50
Goodyear Tire & Rubber	26⅞	15¾	31⅞	21⅝	47⅜	27¾	38⅞	‡1.00
H								
Heckers Products	22	14⅜	21⅜	12⅝	15⅞	12½	12½	.60
Hercules Powder	90	71	150	84	185	150	150	6.00
Houston Oil	7	1½	13⅞	6⅜	17⅝	12½	15	....
Hudson Motor Car	17½	6¼	22⅝	13½	23¼	16¼	16½	....
I								
Industrial Rayon	36⅜	23½	41⅜	25⅝	47½	36¼	41¾	2.00
Inspiration Copper	8⅜	2½	24¼	6⅛	33⅛	20½	21½	....
Interborough Rapid Transit	23⅝	8¾	18⅞	10⅞	13¾	6⅞	8⅛	....
Inter. Business Machines	190½	149¼	194	160	189	155	155	*6.00
Inter. Harvester	65⅝	34⅛	105½	56⅝	111½	99⅛	107½	2.50
Inter. Nickel	47¼	22¼	66⅜	43¼	73⅜	55⅛	59½	‡1.00
Inter. Tel. & Tel.	14	5⅝	19¼	11⅛	15⅞	10¼	10½	....
J								
Johns-Manville	99½	38½	152	88	155	125½	129	*3.00
K								
Kennecott Copper	30⅜	13¾	63⅜	28¼	69⅜	51	54⅜	‡.50
L								
Lambert	28½	21⅜	26¾	15⅞	24	18½	20¾	2.00
Lehman Corp	95¾	67⅛	123¾	89	137	118	120½	*3.00
Libbey-Owens-Ford	49¼	21½	80¼	47¼	79	61½	67½	‡.75
Liggett & Myers Tob., B	122	93¾	116½	97¾	114	96	97	*4.00
Loew's, Inc	55⅛	31¼	67⅛	43	84½	64½	76¾	*2.00
Lone Star Cement	36⅞	22⅞	61⅞	35½	75¼	52	53	‡.75
Lorillard	26½	18½	26½	21⅛	28⅝	21¼	22½	*1.00
M								
Mack Truck	30¾	18⅝	49¼	27⅜	62¼	42¾	45½	*1.00
Macy (R. H.)	57¼	30½	65¼	40⅛	58¼	45½	46	*2.00
Marshall Field	14¼	6¾	25⅛	11⅛	30⅞	18⅞	24	....
Masonite	....	....	64½	44	74	55	57	*1.00
Mathieson Alkali	33⅞	23¾	42⅜	27½	41¾	35⅞	36½	1.50
McIntyre Porcupine	45⅝	33¾	49⅜	38⅛	42½	32¾	33½	2.00
McKeesport Tin Plate	131	90½	118½	83½	42½	31⅛	31¼	....

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous (Continued)

	1935		1936		1937		Last Sale 5/12/37	Div'd $ Per Share
	High	Low	High	Low	High	Low		
McKesson & Robbins	10¾	5⅞	14¾	8⅝	16¼	12⅝	13⅞	....
Mesta Machine	42⅝	24⅛	65	40⅝	72¼	58	61½	‡1.75
Minn. Honeywell	....	....	112	65	120	100	100	2.00
Minn. Moline Power	7⅝	3⅞	12⅜	6½	16⅛	11	13	....
Monsanto Chemical	94¾	55	103	79	101	85	85⅛	‡.75
Mont. Ward & Co	40⅞	21¾	68	35¾	69	51¼	51½	*2.00
Murray Corp	21⅜	4¾	22¾	14	20¾	13½	13⅞	†.50
N								
Nash Kelvinator	....	....	....	....	24⅜	17⅜	19½	1.00
National Biscuit	36⅜	22¼	38¾	28¾	33⅜	25¼	25½	1.60
National Cash Register	23½	13½	32⅝	21½	38⅞	29⅝	32½	1.00
National Dairy Prod	22⅛	12⅞	28¼	21	26⅛	22⅜	22½	1.20
National Distillers	34½	23⅛	33⅜	25⅝	35	27½	30	*2.00
National Lead	....	....	36½	26⅜	44	31½	34¼	*.50
National Power & Light	14⅜	4⅞	14⅞	9⅝	14¾	9¾	9¾	.60
National Steel	83¾	40⅜	78	57¼	94½	70	82¼	*2.50
N. Y. Air Brake	36½	18½	83	32½	98½	73½	83½	†1.00
Newport Industries	10⅞	4⅜	40	9	41¾	28	33	‡.50
North American	28	9	35½	23⅛	34⅞	23⅝	23⅝	‡.30
North Amer. Aviation	7⅜	2	14¼	6⅝	17⅜	11⅛	11⅜	....
O								
Ohio Oil	14¼	9¼	18	12⅛	22⅞	17⅛	20	‡.50
Otis Steel	17⅝	4¼	20¾	12½	24⅜	16½	17⅝	....
P								
Pacific Gas & Electric	31⅝	13⅛	41	30¾	38	28⅞	29⅜	2.00
Packard Motor Car	7½	3½	13⅜	6⅞	12⅜	9¼	9⅜	‡.15
Paramount Pictures	12	8	25	7⅛	28⅜	19½	19⅝	....
Penney (J. C.)	84¾	57¼	112½	69	103¾	94¼	97¾	4.00
Phelps Dodge	28⅛	12¾	56¾	25⅝	59⅞	46¼	47	‡.80
Phillips Petroleum	40	13¾	52⅜	38⅛	59¼	49½	53⅞	*2.00
Procter & Gamble	53¾	42⅜	56	40¼	65½	55½	61½	*2.00
Public Service of N. J.	46¾	20⅜	50½	39	52¾	40⅞	41½	2.60
Pullman	52⅞	29½	69⅞	36⅞	72⅛	57⅛	59⅝	1.50
Pure Oil	17	5⅞	24⅞	16	24⅜	18¼	18¼	....
R								
Radio Corp. of America	13⅜	4	14¼	9¾	12¾	8⅝	9	....
Radio-Keith-Orpheum	6	1¼	10⅞	5	10⅛	7¾	8	....
Remington Rand	20¾	7	25	17½	29⅛	21	25	*.60
Republic Steel	20¾	9	29⅞	16⅞	47¼	27½	35½	....
Reynolds (R. J.) Tob. Cl. B	58⅝	43⅛	60½	50	58	50	50	3.00
S								
Safeway Stores	46	31⅝	49⅝	27	46	36	38	*2.00
Schenley Distillers	56¼	22	55⅞	37¾	51¾	42½	44	‡.75
Sears, Roebuck	69⅞	31	101½	59⅝	95⅜	81	85⅝	3.00
Shattuck (F. G.)	12⅞	7¼	19¾	11⅛	17⅝	12⅞	14	.60
Shell Union Oil	16½	5½	28¼	14¾	34¾	25⅝	28¾	†.25
Socony-Vacuum Corp	15¾	10⅝	17½	12½	20¼	16¼	18½	‡.25
Spiegel, Inc	84	43⅞	114½	63	28¾	21½	21⅞	1.00
Standard Brands	19⅛	12½	18⅛	14⅜	16¼	12¾	12⅞	*.80
Standard Gas & Elec	9¼	1½	9⅞	5⅛	14⅜	7⅞	7⅞	....
Standard Oil of Calif	41⅛	27¾	47⅝	35	50	42⅜	43¼	*1.00
Standard Oil of Ind	33⅜	23	48½	32¾	50	43⅛	44½	*1.00
Standard Oil of N. J	52⅜	35¾	70⅜	51⅛	76	64	67⅝	*1.00
Stewart-Warner	18⅞	6⅝	24½	16½	21	17¼	18¼	*.50
Stone & Webster	15⅛	2½	30½	14⅝	33⅝	21¼	22⅜	†.25
Studebaker	10¾	2¼	15⅞	9⅛	20	13¼	15¼	....
Sun Oil	77	60½	91	70	77½	68	68	*1.00
T								
Texas Corp	30¼	16½	55¼	28⅞	65⅛	50⅜	60⅛	2.00
Texas Gulf Sulphur	36¾	28¾	44¾	33	44	35½	36¼	*2.00
Texas Pacific Coal & Oil	9¼	3¼	15¼	7½	16⅝	12½	12¾	‡.10
Tide Water Assoc. Oil	15⅞	7⅝	21¾	14¾	21⅝	16¾	17¼	.80
Timken Detroit Axle	13⅛	4⅝	27⅞	12⅛	28⅞	21½	23⅝	*1.00
Timken Roller Bearing	72½	28⅜	74½	56	79	60¼	61½	3.00
Twentieth Century-Fox	24⅞	13	38⅝	22½	40⅞	33¾	36⅞	‡.50
U								
Underwood-Elliott-Fisher	87¼	53¾	102⅜	74⅝	100⅛	77	77	3.00
Union Carbide & Carbon	75¾	44	105¼	71⅝	111	95	96½	3.20
Union Oil of Cal	24	14¾	28½	20¾	28¼	24⅛	24⅝	1.20
United Aircraft	30⅜	9⅞	32⅜	20⅝	35⅛	24⅛	25	†.50
United Carbon	78	46	96¾	68	91	69¾	79⅜	4.00
United Corp	7¾	1½	9¼	5⅜	8½	4⅞	5	†.20
United Fruit	92¾	60½	87	66½	86¾	79	80	*3.00
United Gas Imp	18½	9¼	19½	14⅛	17	13⅛	13¼	1.00
U. S. Gypsum	87	40½	125¼	80½	137	105½	109½	*2.00
U. S. Industrial Alcohol	50⅝	35⅛	59	31¼	43⅝	34¼	35	....
U. S. Pipe & Fdy	22⅝	14¾	63⅞	21½	72¼	53	55½	3.00
U. S. Rubber	17¼	9⅛	49⅜	16⅜	72⅜	44¼	56⅝	....
U. S. Steel	50⅝	27½	79⅞	46⅜	126½	75	99⅛	....
U. S. Steel Pfd	119¼	73⅝	154¾	115½	150	133	133¼	7.00
Utilities Pw. & Lt., A	4¼	1	7	3⅛	4⅞	2⅛	2¾	....
V								
Vanadium	21¾	11¼	30⅝	16¼	39⅜	26	28	....
W								
Walworth Co	....	....	12⅜	5½	18¾	11¼	15⅜	....
Warner Brothers Pictures	10¾	2¼	18⅜	9¼	18	12⅜	12⅜	....
Western Union Tel	77¼	20⅝	96⅛	72½	83½	57¼	57¼	3.00
Westinghouse Air Brake	35¾	18	50⅞	34¾	57¾	41⅞	44⅛	1.00
Westinghouse Elec. & Mfg	98¾	32⅝	153½	94½	167⅝	130¼	135	‡2.00
Wilson & Co	9¼	3⅞	11	6⅝	12¼	8¾	9¼	.50
Woolworth	65¼	51	71	44¾	65⅜	46⅝	47	2.40
Worthington Pump & Mach	25¼	11¾	36¾	23⅛	47	34¼	36½	....
Y								
Yellow Tr. & Coach, B	9¼	2⅝	23¼	8¾	62½	48⅞	50½	*.60
Youngstown Sh. & Tube	47⅛	13	87¾	41¾	101⅞	75½	85¼	‡.75
Z								
Zenith Radio	14¾	1¼	42⅜	11⅛	40¼	31	35⅜	‡1.00

*Annual Rate—not including extras. † Paid last year ‡ Paid this year.

Answers to Inquiries

(*Continued from page* 178)

able to anticipate further progress especially in view of the strengthened dealer representation and the continuing favorable conditions existing in the automotive industry. Admittedly, increased costs of materials and labor present a problem, but this also applies to the organization's competitors. The company had outstanding at the end of 1936, $6,814,546 of 6% debentures convertible into common stock. Interest is currently being paid at the rate of 3% annually, in accordance with the indenture, but the company beginning January 1, 1938, must pay the full 6%. Since the bonds are convertible into common stock at $12.50 per share, it seems probable that some steps will be taken by the company to call the issue and force conversion thereby effecting a considerable saving in interest requirements and accruals. Assuming that the bonds are called and the entire issue converted into common stock, the number of shares outstanding would be increased some 545,000 shares, bringing the total to about 2,716,000 shares. The advantages to the stockholder of such a move are apparent not only because of the fact that fixed charges would be eliminated, but also because this would be accomplished without placing any drain upon working capital. With the sales picture continuing favorable, the stock quite clearly offers interesting speculative possibilities warranting further holding, in our opinion.

American Brake Shoe & Foundry Co.

I have read with great interest your recent articles on American Brake Shoe & Foundry. Now when this stock is selling back around its low for the year I would like to buy some of this stock. I will, therefore, be grateful for your advice.—E. J. F., Savannah, Ga.

On the basis of the exceptionally good earnings record and favorable prospects for the company, we too feel that you would be warranted in acquiring American Brake Shoe & Foundry stock around existing quotations. As you may know, most railroad equipment manufacturers suffered heavy losses during the depression years. In the case of the subject organization, however, profits were recorded in each year but one, 1932, although naturally well below pre-depression levels. A large proportion of the company's business with the railroads is of a replacement type and includes such products as brake shoes, castings and forgings, track fixtures, car wheels, etc. The demand for these products naturally fluctuates with railroad activity, but is more stable than that for original equipment. In addition to the organization's well entrenched position in the railroad equipment field, it also does a considerable business in brake linings, brake shoes, fan belts, and bearings for automobiles, trucks and general industrial purposes. Sales of the company increased approximately 25% in 1936, over the preceding year while the first quarter of the current year showed further improvement. With about 65% of its business originating with the railroads, the increase in carloadings and consequent larger equipment outlays naturally is proving beneficial to the company and likely will continue to do so in line with further traffic gains. Last year the company's $7 preferred stock was retired and a new $5.25 preferred issued in exchange. The latter security is convertible into two shares of common stock. In the first quarter about 29,000 shares of the new preferred were converted into common and as of March 31 only 55,198 shares of preferred remained outstanding ahead of the 689,226 shares of common. Earnings during the quarter equalled $1.06 a share on the common, after preferred requirements, against 56 cents a share on a slightly smaller amount of common stock a year before. In view of the favorable recent earnings showing and the promising outlook generally, the

regular $2 annual dividend on the common stock may be adjusted upward or supplemented by sizeable extras, in view of the strong financial status of the company.

Kennecott Copper Corp.

It is my understanding that producers like Kennecott do not immediately benefit by any price advance for copper as their output is contracted for in advance. Am I right in this? If so how do you regard Kennecott as an investment when increasing production may sooner or later bring a downward price adjustment.—R. E. W., Providence, R. I.

We believe it is frequent practice among copper producers to contract with large consumers for requirements some time in advance, especially in rising metal markets. To state, however, that the producer would not immediately benefit from any price advance, does not necessarily follow since it is conceivable that advances in the price of the metal would likely prompt higher contractual prices for future delivery. The other point which you raise, that of increasing production trend, and its effect on metal prices, must be tempered with the understanding that the copper producers being relatively few in number, have in past years been able very successfully to control production, keeping it within reasonable bounds, and except under extraordinary conditions, permitting of a price level sufficiently high to enable such fortunately situated concerns as Kennecott to operate profitably. The properties of Kennecott are productive of the metal on a favorable cost basis in comparison with its competitors. The company is conservatively and simply capitalized, free from funded debt and displaying a very strong financial status. The record of earnings and dividend disbursements, with the exception, of course, of the depression years, tends to inspire confidence in the stock for its investment quality. Much, of course, depends upon metal prices, as you suggest, but we incline to the point of view that copper will stabilize around current quotations, which are quite high enough to permit Kennecott to operate on a very satisfactory basis. Earnings equivalent to $2.36 a share were reported from operations in 1936, against $1.22 a share in 1935, and we believe the prospects for 1937 suggest the continuance in uptrend thus established.

P. Lorillard Co.

Please give me your views on P. Lorillard Co. at this time. Although it was carried down in the recent market break, don't you think its generous yield should help it to quickly regain its former high levels?—D. H., Indianapolis, Ind.

We can agree with your point of view on Lorillard shares to the extent that, at existing price levels, the shares appear to merit retention, and to offer longer term gradual appreciation possibilities, rather than dynamic prospects for quick profits. The shares represent one of the four leading cigarette manufacturers, which has over a period of some years, well established its trade position, strongly established its financial status and appears likely to gradually further extend the uptrend in earnings which is discernible in a comparison of reports covering recent years. Lorillard paid dividends totalling $1.50 a share in 1936, and earned them. On the basis of that dividend rate the shares have an appeal for those seeking a generous yield in a strongly entrenched industry. Sales of "Old Gold" cigarettes, upon which this company so largely depends, are currently reported to be increasing at a very encouraging rate, responding to promotional campaigns which have been successful in the past and which appear to have lost none of their appeal. We find in Lorillard all the statistical requirements which we would demand of a sound common stock investment, and certainly the industry which it represents has a demonstrated record for comparative stability. Inter-company competition is, of course, a factor, but it is a factor common to nearly all enterprises, and if the record in the past and the prospects at the present time are indicative of future operations, it need not unduly concern holders of these shares.

Continental Can Co.

I will appreciate anything you can tell me about the situation in Continental Can. I purchased this stock at around 60 on the basis of its yield, and I am now disturbed by its sizable decline.—B. L., Milwaukee, Wis.

Although sales of Continental Can Co., Inc., set a new high in 1936, it became necessary, in order to comply with the Robinson-Patman Act and to meet competition, to refund approximately $2,500,000 to customers. In the report covering the 12 months ended March 31, 1937, net profit, after the usual charges including provision for Federal surtaxes on undistributed earnings, was equivalent to $3.18 a share on the 2,853,971 shares outstanding at the close of the period. A year previously, earnings amounted to approximately $4.22 per share. The current position of the company continued to be strong. Approximately 70% of the output of the company is in "Packer's Cans," used as containers for food products. The remainder of the production is in general line cans, including containers for beer, motor oil, varnish and other products. The food pack for the current year gives promise of being larger than that of last year which was retarded by the drought. On the other hand, paper containers are now being more widely used, notably in connection with frosted foods. It is not likely that any further material encroachment will be encountered from glass containers. However, competition in the container field continues as a restrictive factor but one which could be remedied by a larger food pack this year, for instance. Continental Can is protected in a measure from possible increased prices of tin plate because it is said to obtain about one-half of its requirements from a subsidiary. At current market levels the shares offer a favorable return on the basis of the present dividend and in addition hold long pull possibilities marketwise.

National Distillers Products Corp.

I have 100 shares of National Distillers bought at 28¼ and decided to hold after much thought of selling around this year's highs. It is my opinion that this issue is worth holding, but I want you to check me on this.—L. M. P., Detroit, Michigan.

We think your appraisal of National Distillers shares is a correct one. The shares are attractive more from a long term standpoint, as an investment primarily for income, than as a trading medium for quick profit possibilities. The investment return at current quotations is exceptional among stocks representing enterprises so well established as this one and the fact that earning power currently not only covers dividend disbursements by a wide margin, but exhibits an uptrend provides a degree of assurance desirable in such holdings. The immedi-

ate prospect encourages also the expectation of maintenance of earning power around present levels; and were it not for the longer term uncertainty by way of possible over-production in the industry, it is hardly likely that these shares would be available at current attractive price levels. Although National Distillers is one of the strongest among its competitors, these shares like others representative of the industry as a whole, are conservatively priced in relation to earnings; the market recognizing the trend toward over-production, and the increasing productive capacity, which if not controlled, could easily bring about an unhealthy condition. There is evidence, however, to support the opinion that the industry as a whole, particularly the larger and well fortified units such as this company, are working toward more settled inventory status; and that, following the initial period of rapid expansion usual in new or newly revived industries, conditions will stabilize and permit of such profits and dividend disbursements as would fully justify very substantially higher price levels for the shares. It is our opinion that current quotations quite fully discount the uncertainties, that National Distillers stands high as a representative of the industry, and that you are fully justified in retaining your holdings on a long term basis.

Curtiss-Wright Corp.

In view of the fact that I have a 2-point loss in Curtiss-Wright common, I will appreciate anything you can tell me about my possibilities in this stock.—H. K. C., Harrisburg, Penna.

The aviation industry is characterized by rapid technical developments. In this respect Curtiss-Wright Corp. has kept in the forefront with its "Cyclone" and "Whirlwind" engines. These are sold on order to governmental and commercial customers. In 1936, approximately $11,000,000 of the total sales of the organization amounting to $18,929,364 were engine sales. Of the units sold, 70% were for commercial planes and the remainder for governmental purposes. Unfilled orders of the corporation as of March 12, 1937, were reported at $17,652,468 as compared with $12,523,242 on March 13, 1936. An expansion program involving expenditure of about $1,350,000 has been announced in connection with the engine-producing subsidiary at Paterson, N. J. The airplane divisions of the corporation manufacture planes, principally of the military types. The United States Government has appropriated increased funds for the air service this year and a further moderate increase for 1938. Progress was made during the year in the policy of dissolving subsidiaries and combining operations under the parent company. Several inactive properties were sold, enabling reduced carrying charges. On indicated net earnings of $1,017,657 in 1936 against a deficit of $172,338 the previous year, the share equivalent on the Class "A" stock amounts to 88 cents against a deficit of 15 cents. As applied to the 7,427,670 common shares outstanding, this was equal to a deficit of 17 cents against a deficit of 37 cents on a smaller number of shares for 1935. Earnings for the first quarter were reported at 23 cents a share against 23 cents a share also a year ago. The management anticipates a 25% increase in production of engines in the current year. The Airplane Division has recently secured orders on a newly-developed type of plane which promises to aid output in that division. Indications also point to increased activities in the several airports controlled. Summing up the possibilities at this time, we feel that retention of long-term holdings is the desirable course to pursue.

Remington-Rand Inc.

I have been holding 200 shares of Remington-Rand averaging around 18. Now in view of the recent market set-back, I would like to know if you favor the continued holding of this stock or whether a switch at these levels would be wise.—H. H. R., Louisville, Ky.

In the last quarter of its fiscal year, ended March 31, 1937, Remington-Rand established a record for quarterly earnings, $1,732,068 equivalent, after preferred requirements to 99 cents per share on the 1,549,158 common shares. A year ago, 61 cents a share was earned on a comparable basis. Unfilled orders at the end of the period were reported at record high levels. Although the final report for the fiscal year is not available as yet, J. H. Rand, Jr., President of the company, stated that the net would probably exceed $3,500,000 (after a non-recurring charge of $1,300,000). The exercise of options and warrants tends to increase the number of outstanding common shares and the financial program, in time, anticipates the retirement of the outstanding debentures and the preferred stock through such operations. In that event, the company's

remaining capital set-up would consist of about 2,500,000 shares of common stock. The two most important divisions of the company are the typewriter and the filing-equipment departments which are said to account for approximately three-quarters of sales. Other products include accounting, tabulating, bookkeeping and adding machines, business forms, supplies and office furniture. Demand has been accelerated by replacement of obsolete equipment, increased business activity, need for detailed reports to Governmental Departments, and the prevailing tendency to make available more abundant statistics. The company has adjusted locations of some of its manufacturing divisions during the year and has arranged for more harmonious labor relations. A new product, an electric shaver, has been put into production recently. The outlook for the company appears favorable, even after reckoning on increased raw material and labor costs. On these indications, we feel you would be warranted in maintaining your position in the issue at this time.

American Gas & Electric Co.

(Continued from page 161)

become very much less of a holding company than it is today. Whether it will be possible to go this far or not, certainly if the subsidiaries can lower their interest charges and preferred dividends it will react to the benefit of subsidiary common stocks and hence have a beneficial effect upon the common stock of the parent company.

Reflecting the improvement in steel and other heavy industries operating in the territory served by the American Gas & Electric, together with the increased demands of residential and commercial customers, both gross and net income have made substantial progress over the past few years despite rate reductions, higher costs and higher taxes. For the twelve months to February 28, last, gross revenues totalled $70,635,216, compared with $65,647,238 for the corresponding previous year, while the net income in the later period after all deductions was equivalent to $2.21 on American Gas & Electric common, against $1.90 a share reported for the year ended February 29, 1936.

During the last calendar year, American Gas & Electric's output of electricity was 17% greater than in 1935 and the gain was made despite major interruptions to business which were the result of severe flood conditions in the spring of 1936. Floods occurred again this year, but just as their effects were offset in 1936 by improved general business conditions so should their effects be offset this year. Throughout the heavily industrialized territory served by the American Gas & Electric Co. business so far this year has been in a state of almost feverish activity. Although there has been some talk of a summer recession, it may be nothing more than an attempt to explain the break in the stock market. In any event those that anticipate such a recession seem agreed that it should not be of serious proportions and that the year 1937 will on the whole show gains over 1936. The American Gas & Electric Co. itself evidently expects a greater demand for electric service, for it has budgeted $15,000,000 for new construction in 1937, which is about 50% over last year's budget.

The common stock of the American Gas & Electric Co. is currently selling for about $32 a share. On the basis of the present outlook it might reasonably be expected to earn the equivalent of between $2.50 and $3 a share for 1937. On this prospect alone the present market appraisal is a conservative one, for after all this is not the most that can be expected of the stock in the future. The business recovery may continue for some years yet. Nor does such an estimate of earnings take into consideration the important difference that would result from refinancing and simplification of capital structure. It is only a guess, of course, but it might be that the American Gas & Electric Co. could save close to $1 a share on its outstanding stock before it exhausted the possibilities in interest and dividend savings, and the tax and other savings that would result from simplification. In view of this, and taking into consideration that it is not the conservatively managed American Gas & Electric Co. that is most vulnerable to politics, the common stock of the company is an interesting one from an investor's standpoint.

Profit Possibilities in Defaulted Rail Bonds

(Continued from page 167)

available was less than $2,000,000 as compared with charges of about $6,000,000. The importance of the road lies in the fact that it connects such roads as Western Pacific, Union Pacific and Southern Pacific in the West with Missouri Pacific, Atchison, Burlington, Rock Island, Union Pacific and Colorado & Southern in the East at Ogden and Salt Lake City. The value of the road as a link in transcontinental routes was heightened by the completion of the Dotsero cut-off in 1934, reducing the mileage about 175 miles between important points in the Middle West and the Pacific Coast. Before the road can obtain the full benefit of this advantage, however, it will be necessary to make up considerable

deferred maintenance and place the property in a position to handle high-speed transcontinental traffic. Maintenance charges were greatly increased last year and current outlays will promise to be equally as heavy in 1937.

Last year, the management of the road submitted a plan of reorganization but in view of the several controversial features involved as well as the continued low level of earnings, it is probable that any plan subsequently adopted may be considerably amended. It is interesting to note, however, that the management's estimates of gross and net in a normal year would be sufficient to cover all fixed and contingent charges, on the basis of the most recently proposed recapitalization, better than twice. The Consolidated 4's 1936 are outstanding in the amount of $34,125,000 and together with $6,382,000 4½'s are an underlying obligation and secured by a first mortgage on 1,560 miles of road. The senior position occupied by the issue, therefore, would seem to assure the issue preferential treatment in any sound plan of reorganization. At 29, the bonds are distinctly attractive for speculative funds.

Wabash Rwy., Ref. & Gen. 5½'s 1975

While operations of the Wabash in normal years provided earnings sufficient to support bonded debt without difficulty, outstanding obligations proved too heavy to be carried by the severely restricted volume of traffic during the depression years. Revenues were adversely affected by curtailed automobile output and subnormal crop movements. During the past two years, however, revenues and earnings have displayed considerable recuperative strength and last year fixed charges were 83% earned, the best showing since 1930. Recently the receivers were denied permission by the U. S. District Court in St. Louis to pay semi-annual interest on the first mortgage bonds and an underlying issue, and directed that funds be used to liquidate accrued maintenance. The Court also ordered that a plan of reorganization be submitted within 60 days. Early reorganization of the road has thus become a definite possibility. The junior issues, including the bonds in question, will undoubtedly be scaled

down and may be exchanged in part for contingency interest securities. Earnings this year, however, have recorded further gains and in a period characterized by further business recovery the $5\frac{1}{2}$'s 1975, or the securities which may be issued in their place under reorganization, should be worth more than current quotations around 40.

Chicago Great Western 1st 4's 1959

Affairs of Chicago Great Western have taken a decided turn for the better. In 1936 gross revenues increased nearly 21% and fixed charges were covered 1.19 times as compared with only 73% of requirements in 1935. Traffic increased about 18% in the first three months of this year.

It was proposed, under the terms of the reorganization plan formulated last year, to give holders of the $35,544,000 1st 4's 1959, 25c in new first mortgage 4's, 25% in general income 4's and 50% in 4% non-cumulative preferred stock. Additional income bonds were to be given in lieu of unpaid interest. Objections were raised and for the present the situation appears to be stalemate. In view of the strong mortgage position held by the bonds, however, more favorable treatment appears to be a virtual certainty. Moreover, the marked improvement in the road's financial position suggests a possible payment in the near future against unpaid interest. All in all the potential value of the bonds appears greater than the current appraisal of 46 cents on the dollar.

Market Turn Is at Hand

(*Continued from page* 141)

ours, the British Government also desires further recovery and will not hesitate to lend a word of cheer to groggy markets, if necessary.

As a final word, the reality is unchanged that the investor can obtain a yield of 3 to 6 per cent in numerous sound equities, whereas cash at short term continues to command a fraction of such wages. Around present prices can be found scores of stocks priced at 10 to 15 times probable 1937 earnings. As an interesting sidelight, divergent group performance in the reaction, by industries, is shown in a table accompanying this article. This should be studied with care, for whether a group of stocks has declined more or less than the average of the market does not necessarily make it either attractive or unattractive. For example, finance company stocks declined but little in the recent reaction because they had already experienced a broad decline before the general reaction began. Specific security recommendations will be found elsewhere in this issue, as well as in our last previous issue, dated May 8.

Arming for Neutrality—Trading for Peace

(*Continued from page* 143)

policy to meet the situation in which we find the world today. It is a disorderly, troubled world, and the obligation imposed upon us, it seems to me, is to continue to work in behalf of peace through international trade, and for our own country's protection in the event of war. If we do this, thoroughly and conscientiously, we shall at least be discharging our responsibilities as American citizens. And we can always take a fine pride in that.

National Dairy Products Corp.

(*Continued from page* 173)

last in the tax on undistributed profits. For example, the financing deductions which were taken last year will not be available this year. While some revisions of this tax law are anticipated, it is not expected that the principle will be abandoned.

There are, of course, two sides to the undistributed profits tax; stockholders are usually delighted with the distributions it forces. On the other hand, it is unquestionably a deterrent to expansion and National Dairy Products is an expanding company. Last year more than $12,000,000 was spent on replacing and adding to capital assets. Moreover, the fact that stockholders at the annual meeting which was held recently approved an increase of the authorized common stock from 7,000,000 to 8,000,000 shares is possibly an indication that the company is to resume more actively the policy of acquiring smaller dairy concerns for a stock consideration—the policy by which it grew to its present size. Even though other companies are acquired mainly for stock, money must usually be spent upon them before they fit perfectly into the National Dairy organization. It is just possible that expansion itself, the needs of an expanded business, coupled with the effects of a higher price level, will force National Dairy into the market for additional funds before the company grows very much older. Under these circumstances it might be better in the long run were the company to be able to retain a fair part of its earnings.

Nor must it be thought when we speak of expansion that it is to expansion only in this country that we refer. It might be thought at first glance that the dairy business were of a localized nature. National Dairy's milk territory, however, may be said to be everything lying to the east of the Mississippi. Its manufactured lines move all over the country—indeed, all over the world. The company even has plants abroad. Talking of its subsidiary, Kraft-Phenix Cheese Corp., National Dairy's last annual report remarks that "During the last five years Kraft's branches in England have more than doubled their volume. Its Australian business has also shown a decided improvement over previous years. Foreign operations generally have been most satisfactory. Kraft plans to enter the Argentine market in the near future." Hence, when the word "expansion" is applied to National Dairy Products it must be understood to imply something pretty much of a world-wide nature.

It is not altogether easy to say why the common stock of the National Dairy Products Corp. should be selling in this era of easy money at $22 a share to yield almost 6 per cent on the basis of the regular dividend alone. It is not as if the dividend were not perfectly safe so far as anyone can tell; as a matter of fact one can confidently predict that more than the regular dividend will be paid this year. One can foresee, moreover, both expanding business and expanding profits. It may be, of course, that the political muddying of the milk waters has acted as

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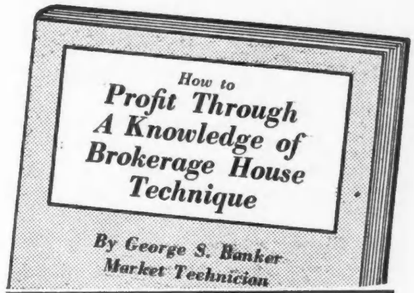

Contents

Security Markets Under the S E C
Your relationship with the broker under the new regulations.

Choosing Your Broker
What to consider when selecting a broker—what service can you expect.

Securities—Registered and Exempt
When to have your stocks and bonds in your own name—safeguards to be taken.

The Mechanics of Buying and Selling
How to determine the 'correct' buying and selling price—how to transmit your order to avoid error—kinds of orders—when to use them.

Costs of Buying and Selling Securities
Brokerage commission rates — why they vary—state and federal taxes—interest rates on margin accounts—how to economize on brokerage expenses.

Margin Accounts
S E C requirements — how they have affected the technique of trading on margin—short sales.

Your Broker's Statement
How to read it—how to keep a record of your margin status—favorable buying and selling prices in relation to margin requirements.

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Shares	Stock	Price Paid

Dividends and Interest

Imperial Oil Limited Dividend

NOTICE TO SHAREHOLDERS AND THE HOLDERS OF SHARE WARRANTS

NOTICE is hereby given that a semi-annual dividend of twenty-five cents (25c) per share and a special disbursement of thirty-seven and one-half cents (37½c) per share, both in Canadian currency, have been declared and that the same will be payable on or after the 1st day of June, 1937 in respect to the shares specified in any Bearer Share Warrants of the Company of the 1929 issue upon presentation and delivery of Coupons No. 47 to any Branch of:

THE ROYAL BANK OF CANADA, in Canada.

The payment to Shareholders of record at the close of business on the 14th day of May, 1937, and whose shares are represented by registered Certificates of the 1929 issue, will be made by cheque mailed from the offices of the Company on or before the 31st day of May, 1937.

The transfer books will be closed from the 15th day of May to the 31st day of May, 1937, inclusive, and no Bearer Share Warrants will be "split" during that period.

Under The Income War Tax Act of the Dominion of Canada a tax of 5% is imposed on all persons who are non-residents of Canada in respect of all dividends received from Canadian debtors, and such tax must be withheld at the source. The above tax will be deducted from all dividend cheques mailed to non-resident shareholders and the Company's Bankers will deduct the tax when paying the dividend to or for the account of non-resident shareholders on presentation of coupons. Ownership certificates will be required by the paying Bankers in respect of all dividend coupons presented for payment by residents of Canada.

Stockholders resident in the United States are advised that a credit for the 5% Canadian tax withheld at source is allowable against the tax shown on their United States Federal income tax return. If it is desired to claim such credit on the return the United States tax authorities require the receipt or certificate of the Canadian Commissioner of Income Tax for such payment. In order for the taxpayer to secure such proof from the Canadian Commissioner it is necessary for the United States stockholder to submit, at the time of cashing his dividend coupon, an ownership certificate on Canadian form #601. Only in this way can the Canadian Commissioner identify the withheld Canadian tax with the specific recipient of the dividend in order to furnish the necessary individual receipt. If Forms #601 are not available at local United States banks, they can be secured by requesting the same from the Company's office or at any branch of The Royal Bank of Canada, in Canada.

BY ORDER OF THE BOARD
F. E. Holbrook, Secretary.

56 Church Street,
Toronto, Ontario.

MOTOR WHEEL CORPORATION

Dividend Notice

Lansing, Michigan
May 6, 1937

The Board of Directors today declared a quarterly dividend of forty cents (40c) per share on the common stock payable June 10, 1937 to stockholders of record at the close of business May 20, 1937.

C. C. Carlton,
Secretary.

UNDERWOOD ELLIOTT FISHER COMPANY

The Board of Directors at a meeting held May 13, 1937, declared a dividend for the second quarter of the year 1937 of $1.00 a share on the Common stock of Underwood Elliott Fisher Company, payable June 30, 1937 to stockholders of record at the close of business June 12, 1937. Transfer books will not be closed.

C. S. DUNCAN, Treasurer.

a deterrent to investor interest. Then, too, companies in the field of consumers' goods are unquestionably out of favor at the present time and this may have something to do with it. On the other hand, even though political conditions are a drawback and even though one cannot expect the earnings of National Dairy to soar as is possible in the case of some companies in heavy goods, why should it not be that there is no "catch" in the seeming cheapness of the company's stock—that it is indeed relatively underpriced? We incline to this view and think that the stock will appreciate in price during the coming months.

The Next Move of the Money Managers

(*Continued from page* 146)

enough to invite Federal repression.

In summary, we conclude that no further moves by our money managers to restrain the stock or commodity markets are now in prospect. This leaves for consideration the probable moves to be made in solving the two chief New Deal fiscal problems of the moment—the budget deficit and the embarrassing expense of buying all offered gold for the purpose of sterilization by the Treasury.

We rather suspect that Mr. Roosevelt is playing a shrewd political game in his current budget policy. Revenues having fallen under estimates, he is no doubt desirous of obtaining some moderate economies—without departing significantly from a $7,000,000,000-level of spending—but he is even more interested in warding off heavy new spending projects that would otherwise be certain to originate in Congress, and in leaving himself largely in control of the pursestrings and the various projects.

His strategy, therefore, has been to dangle before the eyes of Congress the threat of a new and rather important tax bill either late this year or at the next session, if the gentlemen of the Senate and House do not behave themselves and remain reasonably within his budget limits, as now revised.

Now Congress, with elections looming up in the autumn of 1938, has no stomach for tackling a general tax bill. For this reason, the chances are that its appropriations will at least be held within Mr. Roosevelt's desires; and that so far as the spending side is concerned—assuming no further underestimate of revenue—the President's objective of a "layman's balance" of the budget may be had in the fiscal year beginning July 1. This would mean a balance of cash income and outgo and the end of deficit financing.

It is possible, but by no means certain, that the most controversial of all appropriations and the one that is most vital to the budget balance—that for relief—may be cut below the $1,500,000,000 that the President asked. There is a considerable body of sentiment in Congress for cutting relief to $1,200,000,000 or even to $1,000,000,000. This is only partly a sincere desire for economy. Many Senators and Representatives have little taste for the demonstrated performance of W P A, and even more are annoyed by the Farley system under which appropriations granted to be spent at the Administration's discretion are used as a patronage whip with which to coerce the legislators.

As a matter of fact, there is much of unreality in the economy drive—and will be unless and until Congress revolts and withdraws Mr. Roosevelt's discretionary relief-spending powers. As matters are now run at Washington, it does not matter particularly whether Congress votes $1,500,000,000 or $1,000,000,000 for relief. Mr. Roosevelt and Mr. Hopkins can and will spend the appropriation as fast as they think is necessary or desirable, and if the money runs out before the fiscal year is up they merely have to go back to Congress for a deficiency appropriation.

One is fairly safe in assuming that the affable Mr. Roosevelt is less worried over the fiscal outlook than some press comment would seem to imply.

What few in Congress seem to have realized is that 1936 business activity mounted substantially above the 1923-1925 average only during the second half of the year and that income taxes for the full year, reported in March, were held back by the less active business of the first half of 1936. For the past six months the production index of the Federal Reserve Board has averaged about 115,

against approximately 98 during the first half of 1936 and an average of about 101 for the full year 1936. In other words, business activity for the calendar year 1937 could average considerably under the level of recent months and still bring in, next March, much more in income tax revenues than was the case this year.

In fact it would take more of a reaction in business than appears likely to change the outlook for substantial increase in Federal revenues during the 1938 fiscal year. With this probability in the back of his mind and with a new flood of spending projects meanwhile choked off in Congress, we rather think Mr. Roosevelt hopes and expects in 1938—an election year—to be able to say: "Behold! We are spending less than our income, and our promise has been kept."

As for the mystery of what is to be done about gold, the answer—in this writer's opinion—is that no startling move is on the cards. Whatever the wisdom of the $35 price established in the days when the New Deal was striving might and main to lift the price level, an arbitrary reduction of the price now would probably do more harm than good, would be of doubtful political feasibility and in no event is probable. As for other control measures applied to the movement of gold—such as embargoes, special taxes and whatnot—the elemental fact is that a country is either on a gold standard or is not. If on a gold standard, it will buy and sell gold at a fixed price. If it will not buy or sell gold at a fixed price it is on a paper-money standard. Our departure from a $35 price for imported gold would undoubtedly involve a re-alignment of foreign exchange rates all over the world.

Moreover, gold in huge quantities has not come here solely because of our $35 price. Much of the flow has reflected a flight of capital from war-frightened Europe. Much also has reflected foreign investment and speculative purchases of American securities on the conviction that potentialities for profit here were greater than abroad. In time—and that time may be near—this capital movement may round out or terminate.

Fears of a general war in Europe are waning; and we have reached a level in the recovery cycle at which potentialities for our securities obviously are not as great as they were a year or two ago. For both reasons, foreign demand may recede. It will certainly be checked for the near-term by the dash of cold water recently experienced in market reaction abroad and here and by greater doubt as to the second half-year prospect for American business.

Meanwhile, in little more than four months, our venture in sterilizing gold has cost the Treasury more than $600,000,000. This gold is kept out of excess bank reserves but does augment bank deposits. Since total bank deposits have declined because of liquidation of bank holdings of Government bonds in recent months, the simplest way out of the dilemma would merely be to stop sterilizing the gold. Such increase in excess reserves as might occur in the near future would not be dangerous in the present setting. Indeed, Washington has persistently exaggerated the risks of a run-away inflation of private credit. Thousands of unsound banks and amateur bankers passed out of the picture between 1929 and 1933 and in the minds of the survivors the lessons of the great deflation are still painfully fresh. It is due far more to the caution of the present-day bankers, than to Federal controls, that security loans and real estate loans—the two outstanding items of excess in the last boom—are now about what they were at the bottom of the depression.

Finally, there is another way out of the gold dilemma—at least temporarily; and as this is written it appears to have been resorted to. Permit or induce somebody else to buy the world's loose gold. The interesting fact is that for the past week the British Stabilization Fund has stepped into the London gold market and has become a big buyer—for reasons not officially explained but mayhap reflecting a little prodding from the control officials on this side of the Atlantic; perhaps something like: "Look here, now!" from Mr. Morgenthau, "We're not going to be the goat much longer."

At any rate the British are buying gold and so are the Dutch, and the stream of gold that had for long been running this way at more than $100,000,000 a month has dwindled

Dividends and Interest

Dividends and Interest

to a tiny trickle for the time being.

What next? A sober period in the markets and a mild summer business recession, followed by renewed advance with the blessings of our money managers as long as progress is orderly, prices do not outrun consumer purchasing power and speculation holds itself within bounds.

American Locomotive Co.

(Continued from page 155)

is also a powerful argument now that earnings and credit position have both improved sufficiently to finance necessary equipment needs.

The passenger division, always secondary to freight but promising to become increasingly important in the present program of the railroads, should also bring considerable new business to the locomotive builders in general and to American Locomotive in particular. Streamlining, the new note in passenger train design and equipment, started with light weight Diesel powered locomotives and seems likely to become an essential feature of new passenger locomotive design for steam and electric engines as well. The idea of a fast streamlined train has caught the fancy of the traveling public.

Instances are quoted in railroad circles where new streamlined trains have increased revenues by as much as a third and when substituted by equipment of older design, the traffic falls back to former levels, even though the substitution is equal in appointments and traveling comforts and exactly the same schedule is maintained as the streamlined train. In order to meet the competition of the Burlington "Zephyr" between Chicago and the Twin Cities, the Chicago Milwaukee & St. Paul ordered the new streamlined steam locomotive built by American Locomotive for its "Hiawatha" train. According to a recent report based on less than 22 months operation of what are now four scheduled trains of the "Hiawatha" designation, approximately 500,000 revenue passengers have been carried and officials of the road estimate that the trains have earned approximately $1,000,000 in the year 1936. The cost of the four trains is estimated at about $800,000.

The equipment was not only a good investment but has proven necessary to hold St. Paul's competitive position on this run. Actual experience showed that the "Zephyr" took business away from both the St. Paul and Chicago & Northwestern over the same route. The "Hiawatha" took business from both the Burlington "Zephyr" and Northwestern crack "400" train (not streamlined). Now the Chicago Northwestern has ordered a streamlined steam engine of the Hiawatha type to get back some of the business lost to its streamlined competitors. After studying such examples of the practical economics of these travel fancies of the public, railroad men are in a mood to bring their passenger locomotive service up to date with modern design, bright paint and streamlining as well as with operating efficiency.

The controversy between the steam, electric and Diesel locomotive has pretty much settled down to at least general conclusions, which leave the position of the steam engine supreme for the backbone of heavy duty long haul freight and passenger service. Recognition is given to the special advantages of the electric motive power in the densely populated centers and for other special purposes and the Diesel-electric has been found to be particularly economical for switching service. American Locomotive is well represented in the manufacture of each of these three types of railroad motive power. In the event that future developments should warrant greater emphasis in any other direction it could easily adapt its facilities to meet the trend.

Except for substantial accumulations of its preferred stock and a realistic write-down of property assets and investments in 1933, American Locomotive Co., has emerged from its state of pauperism without any important depression scars from a financial standpoint. Net working capital was heavily drained by the successive deficits but nevertheless as of December 31, 1936, the company had total current assets of over $16,000,000, with cash and marketable securities ample to cover its $3,575,000 current liabilities by a substantial margin. There is no other debt. The company has a simple capital structure which has not changed since 1926 and consists of 351,961 shares of $100 par value

7 per cent cumulative stock and 767,900 shares of no par value common. The former was increased from 250,000 shares and the latter was increased from 500,000 shares in 1926 in the acquisition of Railway Steel-Spring Company, a subsidiary which has since been fully absorbed and the division expanded. All of the other expansion, acquisition, modernization and diversification of operations in the past decade has been financed without permanent borrowing and without increase in capitalization. In 1933, property assets were written down from a net cost of $61,667,760 to a revised valuation of $35,821,515 and the 35 per cent ownership in General Steel Castings Corp., was written down from about $8,000,000 to $2,500,000, in line with the reduced earning power of these assets and reducing book charges for depreciation accordingly.

The management conserved its financial resources during the depression at the expense of preferred dividend payments, however, and present accumulations on this issue amount to approximately $29 a share at the present time. With earnings last year covering only about half of the annual dividend on the preferred and the earnings outlook for the current year appraisable only in the generality that substantial improvement is probable, it is evident that there is likely to be a further lapse of time until any plan for elimination of these accumulations would be practicable. In the meantime, the junior shares are selling largely on the excellent prospects for revival of more normal volume of locomotive purchases by the railroads and the outlook for further improvement in other divisions of the company.

Prospects in both directions appear well assured, and it is our deliberate judgment that American Locomotive common stock has well defined possibilities for further capital appreciation over the longer term.

No Clouds in This Picture

(*Continued from page* 169)

improved latex-saturated paper-base composition used primarily for inner soles in shoes; a new type of white enamel refrigerator finish of increased hardness and reduced drying time."

The extent of Union Carbide's progress with new products and processes may be judged to some extent from the fact that last year the company filed 412 patent applications in the United States and foreign countries. Monsanto Chemical continues to make steady progress in producing plastics and other products from petroleum. Mathieson Alkali's last annual report said: "It is of interest to note that an increasing percentage of our earnings is being derived from specialties. Efforts at all times are being directed towards the important field of developing new products to supplement our regular basic products." Dow Chemical continues to pioneer in magnesium alloys and in chemicals derived from wood and petroleum gases. Hercules Powder never misses an opportunity to preserve its leadership in cellulose products and has undertaken among other things increased production of cellulose acetate.

There is little wonder, with full participation in general improvement guaranteed and with new products and processes making for

dynamic growth, that the stocks of chemical companies are held in high esteem by the investor. It is a favorable consideration also that the well-established chemical companies are strong financially. Not only are the majority of them strong in cash resources but funded debt is the exception rather than the rule in this group of companies. While this tends to make them lack the leverage on which speculators lay such store during a time of recovery, it does make for the stability required by the investor. Finally, it is to be noted that the chemical group is relatively free from labor trouble. The labor factor, that is the man power per unit of production, is lower than in almost any other major industry. Chemical manufacturers sell in so many markets that the labor troubles of others can hardly become paralyzing, while most chemical processes are so automatic that there need be little fear that they will experience labor trouble of their own. As between individual companies, the investor will have to select for himself, giving due consideration to line of products, capitalization and other corporate factors and weigh these points against his own individual requirements.

Stock Opportunities Created by Recent Reaction

(*Continued from page* 165)

Northern Pacific Railway Co.

Conservatively capitalized, Northern Pacific's depression record was considerably better than that of many other major carriers. In only a single year, 1932, did the road fail to earn fixed charges. Total funded debt outstanding is less than $310,000,000 and less than $125,000,000 of debt carries a coupon rate of higher than 4½%. There are 2,480,000 shares of common stock outstanding on which dividends were paid without interruption from 1899 to 1932. Traffic items are well diversified and in addition to grain, coal and lumber, an important volume of manufactured and miscellaneous freight traffic is carried. Prominent in shaping the current outlook is the possibility of an appreciable increase in the shipment of lumber and wheat, the former in reflection of increased building operations and the latter in response to improved prospects for a larger spring wheat crop.

Last year gross revenues of Northern Pacific increased about 15% and, notwithstanding an increase of over 15% in maintenance and operating expenses, and a tax bill 21% higher than in the previous year, net operating income gained nearly 40%. Fixed charges were covered 1.13 times, after which net income available for the capital stock was equivalent to 73 cents a share, contrasting with 17 cents a share earned in 1935. The road enjoys a comfortable financial position, net working capital at the present time being in excess of $20,000,000 and cash amounts to about $12,500,000. Adequate finances have enabled the road to maintain the condition of its property and equipment and it is believed that no considerable portion of increased revenues would have to be diverted to liquidate accrued maintenance.

In the first three months of the current year, gross revenues were up about 20% and a net operating income of $1,535,881 compared with $295,054 in the same period a year ago. Given the benefit of a larger movement of lumber and wheat this year, it may be assumed that there will be a corresponding increase in the movement of manufactured goods and miscellaneous freight into the territory served. Granting that the current prospects for Northern Pacific are not without aspects of uncertainty, the outlook at this time appears to be sufficiently promising to place the shares, at 34, among the more attractive rail speculations.

Ups and Downs in Movietown

(*Continued from page* 159)

picture audiences shop for their entertainment. If the Jewel Theater aforesaid ran its good feature for six or seven days and the Gem Theater two blocks away did the same thing, the "two shows a week" patrons would divide themselves between the two houses. And the saving in costs to the theaters would be appreciable, while the earnings of the pictures would be very considerably enhanced.

With this situation is tied another: the necessity for added production to meet the demand above. The 1936-37 season produced between five hundred and six hundred features. Those cost on a steadily rising scale. If the same total industry income at the theater box offices, $1,000,000,000 could have been earned by three hundred features,—and it could have been by intelligent exploitation and management—the saving would have been over $500,000,000 at the studios. And that sum would permit a very handsome dividend on the gross production capital of the business.

And then, for good uneconomic measure, we have the double billing madness. Whether this growth, a product of the tough depression years, can be excised is a question, but if it can another source of waste will be eliminated. It is admitted the task will be stupendous, but it will be well worth doing, for most theater patrons have reduced their criticisms of it to this: they must sit through one bad picture—or one they have seen already—before they can see the feature they want to see. It is by no means infrequent for patrons to sit in a theater from three to four hours viewing a newsreel, a cartoon, a short and two features. That means a seating capacity and upkeep waste. Most exhibitors would like to get back to the one feature basis if they could be sure their competitors would do likewise.

At the M-G-M sales convention in Los Angeles, May 5, last, Mr. Al Lichtman made the flat statement that rising production costs made advanced film rentals—and consequently admission prices—inevitable. But it is a grave question if advanced prices will result in increased revenues. The theory that the quick nickel is better than the slow dime finds many adherents and theater exhibitors are numbered among them. It is true that better pictures have been produced in the last three years, and it is true that the studios now have in hand pictures which will prove better even than those of the past season. On this improved product increases in theater admissions might be justified.

Two definite needs mark the picture scene. One is the dearth of acting talent and the other of adequate stories. The producer with a

production to cost half a million dollars in prospect can hardly be censored for hesitating to entrust important acting parts to new comers. He wants to play as safe as he can to protect his investment, so he turns to the known "box office names." If he has not the right player under contract he borrows from a competitor. And at a price, be assured. XYZ Studio has under contract Carole Harlowe at $3,500 per week. ABC Studio needs this player for a leading role. The loan-out rate is usually four weeks' minimum salary at $3,500 per week plus three weeks at the same figure as a bonus. In other words the arrangement is seven weeks' salary for four weeks' work, though occasionally for a star the rate will be doubled flat.

Quite plainly this tends to restrict the important roles to a few players, and the reaction at the box office is not favorable since it tends to tire audiences and eventually destroys the usefulness and popularity of the player. Probably not ten new young people of promise reached the screen last year, though two or three hundred were tried and found wanting. That situation is one of the reasons why the Dickstein bill to restrict importation of foreign players blew up in committee. Foreign players are too important to American picture production to be barred out, particularly when it is realized that the world market for our film product at present represents fully 50 per cent of the total revenue, and 30 per cent of the total comes from the English-speaking countries.

The trend for stories seams at present to lie in the more or less classic channels though there is a growing tendency toward originals. The excellent excursion by the Warners into poesy as exemplified by "The Charge of the Light Brigade" and David Selznick's "A Star Is Born" show what can be done with careful preparation and a good helping of imagination. Undoubtedly the market for originals will be steadily improving.

Concluding, and discounting the possibility of labor troubles which might tie up the industry; accenting the possibility of extended runs and the elimination of double bills, with both of which problems Will Hays is concerning himself, with better pictures coming out of the studios, the opinion of informed persons within the industry is that the recent slump in security prices is the reflection of influences without the industry rather than due to causes within, and that an upswing may be expected that will trend higher rather than lower, since revenue is more than likely to keep in advance of production and operation costs.

Is the Decline in Commodities Over?

(*Continued from page* 149)

market requirements. Although crude stocks have increased about 15,000,000 barrels from their low in January of this year and production at just under 3,500,000 barrels daily average is in excess of the Bureau of Mines recommended output, there appears to be little question of the maintenance of the present base crude price of $1.22 a barrel nor of the continued effectiveness of proration. Rising stocks of both crude and motor fuel, however, appear likely to delay any further increase in crude prices until the large consuming season, later this spring or summer.

Rubber

The present rubber growers' restriction plan has corrected the main weak point of the previous Stevenson plan, by taking the Dutch producers into the program which now embraces 98 per cent of the world's rubber supply. The percentage of allowed exports (of basic quotas) is set in each quarter by the international committee, varying in recent years from around 60 to 90 per cent. Since the objective of the program is to provide a stable price, equitable to grower and consumer alike, the price outlook for raw rubber naturally depends upon the export allowances. The committee has never fixed any definite figure, however, for what would represent a fair price. Production costs vary from as low as 12 cents a pound to 18 cents a pound. Such authorities as President Litchfield of Goodyear and Dr. de Kraft of U. S. Rubber have recently stated that rubber should be stabilized under the 20 cent level. In March, rubber topped the 30 cent level, although the tight supply then prevailing was due largely to heavy demands of the manufacturers, who wished to build up larger than needed stocks of finished materials.

New York Curb Exchange

ACTIVE ISSUES

Quotations as of Recent Date

Name and Dividend	1937 Price Range High	Low	Recent Price
Alum. Co. of Amer.	177½	120	135
Amer. Cyanamic B (†.60)	35⅞	26⅝	28⅛
Amer. Gas & Elec. (1.40)	48¾	31	31½
Amer. Lt. & Tr. (†1.20)	26⅛	19	19¾
Amer. Superpower	3	1½	1½
Assoc. Gas & Elec. "A"	3	1½	1⅝
Cities Service	5⅜	3¼	3¼
Cities Service Pfd.	60	46½	47¼
Colum. G. & E. cv. Pfd. (5)	104¼	74	76
Colum. Oil & Gas (*.20)	10⅞	6⅞	7⅝
Commonwealth Edison (†4)	139	108	108
Consol. Aircraft	33¾	20¼	20¼
Consol. Copper	11⅝	7¾	8⅛
Consol. Gas Balt. (3.60)	89⅛	71¼	71¼
Creole Petroleum (†.50)	38	28½	32¼
Eagle Picher Lead (*.10)	27⅞	17½	18
Elec. Bond & Share	28⅛	16⅛	16⅜
Elec. Bond & Share Pfd. (6)	87½	73	73
Ex-Cell-O A. & T. (*.20)	27⅝	18¾	19¾
Ford Motor of Can. "A" (1)	29¾	22¼	23⅛
General Tire	38½	18⅜	26½
Glen Alden Coal (†1)	15	11	11½
Gulf Oil of Pa. (*.25)	63½	52	52
Hudson Bay M. & S. (1)	42	27	27¾
Humble Oil (1.50)	87	75	75¾

Name and Dividend	1937 Price Range High	Low	Recent Price
Imperial Oil (†.50)	24	20⅜	21¼
Iron Fireman (1.20)	27¼	20¼	21½
Jones & Laughlin	126¼	90⅝	95½
Lake Shore Mines (†4)	59½	47¾	51¼
Lone Star Gas (.80)	14¼	10⅜	11
Molybdenum	11⅜	8½	8⅝
National Bellas Hess	3½	1⅞	1⅞
National Sugar Ref. (2)	28	25	25⅜
New Jersey Zinc (†2)	94⅞	72½	80
Newmont Mining (*.75)	135¾	103½	107
Niagara Hudson Pwr	16⅞	11½	12
Niles-Bement-Pond (*.50)	51	40	40
Pan-Amer. Airways (†1)	75½	59	63⅛
Pantepec Oil	9⅝	5½	6¾
Pennroad (‡.25)	5⅜	4	4
Pepperel Mfg. (†6)	151	121	132
Pitts. Pl. Glass (*1)	147½	115	115
St. Regis Paper	11¾	8⅛	8⅜
Sherwin-Williams (†4)	154¾	130	130
United Gas	13⅝	8⅝	8⅝
United Lt. & Pw. "A"	11⅜	5½	5⅝
United Lt. & Pw. cv. Pf. Cl. "A"	75⅞	42½	42½

* Paid this year.
† Annual rate—not including extras.
‡ Paid last year.

The latest tire statistics have confirmed this view and it appears likely that, with expanding production of those growers who had been unable to make their export allowables and the presumed consumer resistance above 20 cents a pound, quotations will gradually ease to and possibly be stabilized at that level.

Sugar

The statistical position of sugar has been outweighed in recent years by political factors, including production restrictions undertaken by producers and a complex mass of quotas, tariffs, subsidies by many consuming countries. Briefly, the ills of the sugar industry originated during the war, when production of beet sugar growing countries was virtually cut off by hostilities and the tropical cane producing countries expanded their production enormously to fill the gap. The revival of beet production after the war resulted in surplus world supplies and when consumption declined during the depression the world markets became glutted with sugar. In spite of curtailment in Cuba and other producing countries, the net result is that the world price of sugar of roughly $1\frac{1}{4}$ cents a pound is below the cost of production in even the lowest cost countries. Preferential quotas (such as the United States allows Cuba and its territorial possessions) and domestic subsidies (prevailing in consuming countries throughout the world) partly make up the differential. Consequently, the future of sugar prices is closely bound to political controls. The first attempt to untangle this situation was made in the recent International Sugar Conference in London at which an agreement was reached by 22 nations to rationalize the production and marketing of sugar. With world consumption increased from around 26,000,000 tons in 1932-33 to around 30,300,000 estimated for this year, the limitation of production for free export to 3,700,000 tons (and a temporary curtailment on free exports to 3,400,000 this year), set by the conference, should prove to be a constructive factor in the long run. Immediate benefits are difficult to see, however, since the allowable exports are in excess of what the conference statisticians figure would be required this year. The domestic price situation is further rendered uncertain by the pending legislation to change import U. S. A. quotas and impose a $\frac{3}{4}$ cent processing tax, with the unfinished state of the proposed bill still leaving it open to conjecture as to just how this tax will be absorbed.

Wheat

This is the time of the year when the wheat prospects are apt to change swiftly because of weather conditions and the lack of definite data as to planting and growing conditions. Outlook for a bumper crop in the United States and Canada has faded considerably during the past fortnight and with poor growing conditions in Europe and smaller world carry-over, the North American continent is rapidly becoming the hope of the wheat importing countries. The United States carry-over having declined to a little over 150,000,000 last year (as compared with a 380,000,000 million bushel carry-over in 1933) is expected to be as low as 90,000,000 bushels by July 1st. If we produce 654,000,000 bushels of Winter wheat (this is the May 1st estimate of the Agricultural Department) and 150,000,000 bushels of Spring wheat we would then have 804,000,000 bushels for the crop year, including carry-over. Since a reserve of approximately 150,000,000 bushels is generally figured on and consumption estimates vary between 625,000,000 and 700,000,000 bushels, it is evident that any deterioration in the wheat crop from this point would make it virtually impossible for the United States to become much of a factor in the export trade although present indications are that we will have an exportable surplus, probably about as large as the Spring wheat crop.

Growing conditions in Europe, are reported to be poor and the requirements of these countries from the exporting nations will be proportionately larger. Under these circumstances, the Canadian crop is now the crucial factor in world wheat prices. On the acreage presently planted, Canada could produce 350,000,000 bushels with good growing weather, but on similar weather conditions to those prevailing during the past four years, the yield may be no better than 250,000,000. Probable world requirements should be adequate to absorb a fair North American crop at around present price levels. A poor crop could easily result in a tight world situation for wheat and materially higher prices. Weather conditions, so far none too favorable, will provide the answer as to which of these alternatives will prevail. The statistical probabilities, however, lean to the favorable side.

Cotton

The most constructive factor in the cotton outlook is the substantial progress made in the liquidation of cotton held by Government agencies. As compared with a peak of around 6,000,000 bales of cotton in Government hands two years ago, there were only about 1,700,000 bales held by the Government at last reports. The Government had the advantage of an all-time record consumption in March (779,300 bales according to Census Bureau statistics) and a price bulge in March tc hasten this liquidation. Subsequent indications of cotton mill activity have been decidedly favorable, although private estimates in April consumption indicate a natural falling off from the exceptional showing in March. Present crop carry-over is just under 7,000,000 bales and is expected to be reduced to about 6,250,000 bales by the end of the crop year. This would compare with a high of 13,250,000 bales at the end of the 1931-32 season. Whether or not cotton prices will be able to reflect the improved statistical position and the larger domestic demand will depend upon this year's crop, planting of which has not yet been completed. Present indications are for an increase of 12 to 15 per cent in acreage, despite the "soil-conservation" plan as a stop-gap curtailment medium. Price control and crop reductions in recent years have been a far more important factor in cotton markets than gold changes and have left a heritage in the form of lost foreign markets that is likely to be more of an obstacle in the way of higher prices than any gold change at this late date. Russia, China, Brazil, Argentina, Peru and other countries have increased production to around 10,000,000 bales—about twice their 1929 rate of production. Figuring only on normal growing weather for the new crop the statistical position of cotton affords little basis for more than a fourteen cent level.

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